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Twentieth session

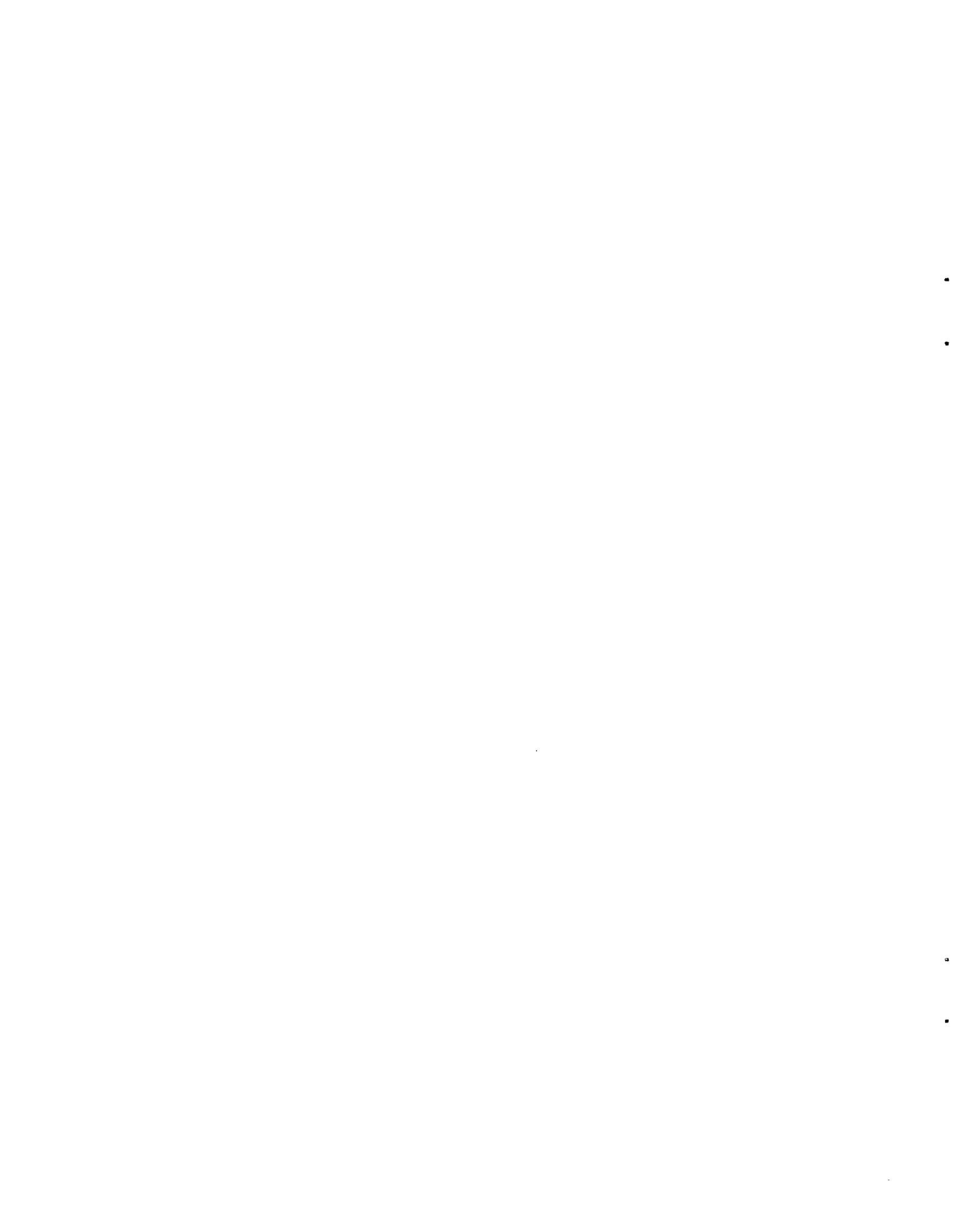
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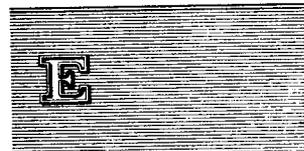
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THE INTERNATIONAL ECONOMIC RELATIONS AND REGIONAL
CO-OPERATION OF LATIN AMERICA



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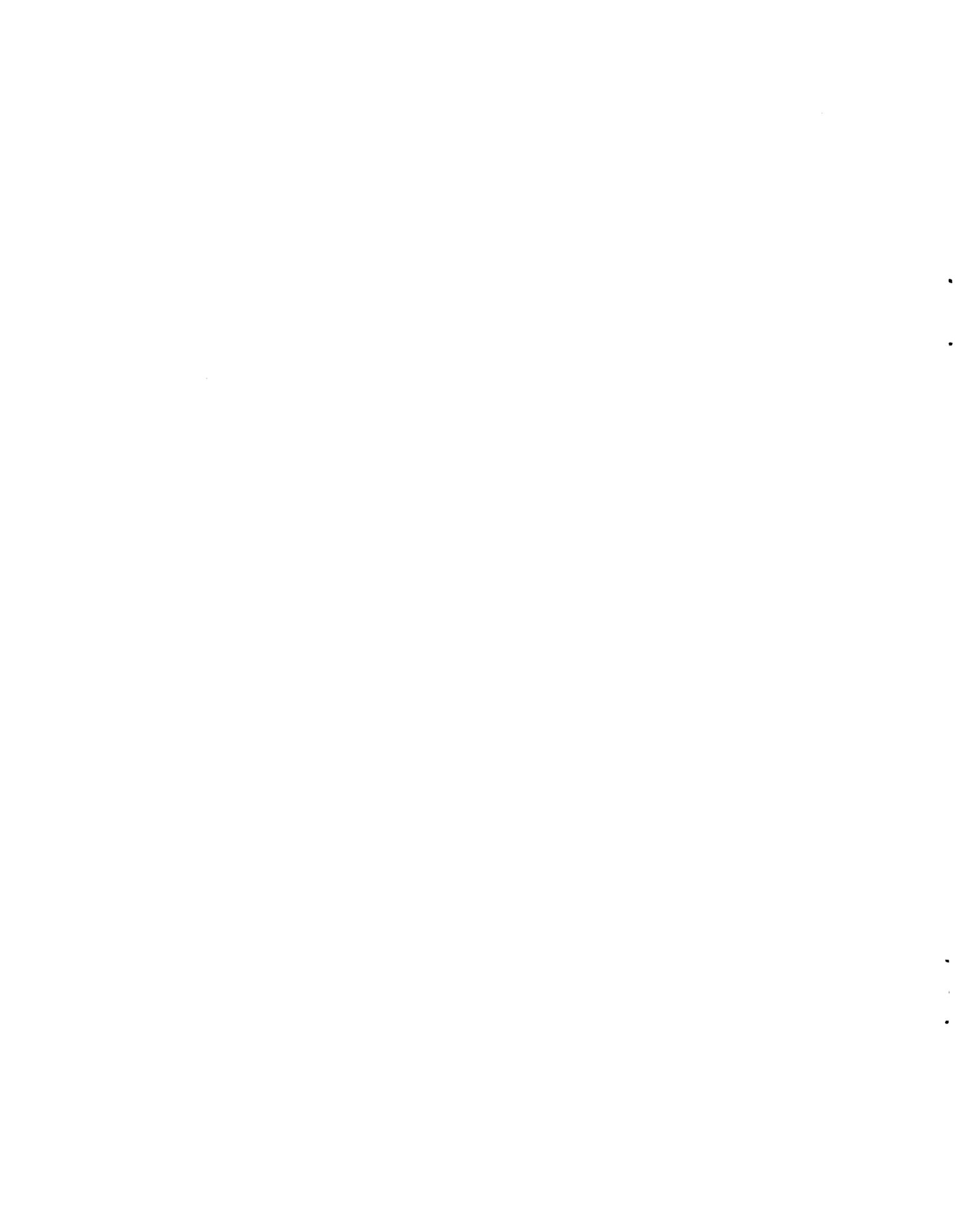
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THE INTERNATIONAL ECONOMIC RELATIONS AND REGIONAL
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INTRODUCTION

The Secretariat has presented an analysis of Latin American external economic relations and of regional co-operation and integration at each ECLA session. In compliance with this mandate of the governments, the Secretariat is now submitting a single document covering both subjects in its two chapters.

Since the nineteenth session (Montevideo, 1981), both the international economic order and the Latin American integration process have been deeply affected by events of enormous importance. A global crisis is taking place which touches all governments and all economic and social models or systems. No one has been able to escape its destructive effects entirely.

This crisis has revealed, in all its harshness, the external vulnerability which is a structural feature of the region. During the period 1981-1983, the region has been the scene of a series of grave problems which have further highlighted this vulnerability, including a drop in the regional product, a decrease in per capita income, an increase in unemployment, a deterioration in the terms of trade, a drastic reduction of imports, and a substantial rise in international interest rates and in the external debt, whose servicing is becoming steadily more onerous and intolerable. During these three years, we have also witnessed the implementation of recessive adjustment policies in the region, whose negative effects border dangerously on the limits of political and social tolerance in many of the countries.

These years have also seen a definite trend towards bilateralism in North-South relations -not only in politics but in trade as well- which relegates multilateral institutions and machinery to a secondary position.

In this last respect, international economic negotiations have met with a succession of failures which have contributed to a justified feeling of frustration and a loss of confidence on the part of the developing world in the merits of international co-operation as a way of effectively helping to resolve its most pressing problems.

At the regional level, the crisis has not only prompted a reduction of imports but has also weakened the schemes for regional co-operation and integration and, especially, for reciprocal trade. The most recent regional assemblies, however, have attested to the existence of a great degree of political support for the regional integration process, despite the severe problems which have had to be faced.

The unwonted situations faced by the countries of the region, together with the clear need for a united response to the challenge they represent, prompted the President of Ecuador to call upon ECLA and SELA to prepare a study on the bases for the adoption of specific measures which Latin America as a whole should take in order to deal with the effects of the crisis. This initiative, which received

/broad political

broad political support, culminated in the holding of the Latin American Economic Conference this past January, at which the Declaration of Quito and a Regional Plan of Action were adopted.

This document briefly reviews the most outstanding aspects of the above events. The clear conclusion reached on the basis of this review is that it is essential to strengthen regional co-operation and integration and to organize and exercise negotiating power as a group at the international level. By following these guidelines the region could, over the longer term, contribute to a more equitable reorganization of North-South relations and, at the same time, resume its course of economic and social development.

I. INTERNATIONAL ECONOMIC RELATIONS

A. EVOLUTION OF THE LATIN AMERICAN EXTERNAL SECTOR IN THE PERIOD 1981-1983

1. General aspects

The long-standing deterioration of the foreign trade of Latin America, intensified in recent years, is largely due to the dependent and increasingly vulnerable form of the region's insertion in the international market. At the beginning of the 1980s the trade of the region was conditioned, more than at any other time since the war, by external factors linked with the evolution of the industrialized countries. As a result of the persistence and worsening of the crisis in these countries -albeit without overlooking the effect in certain Latin American countries of the application of unsuitable economic policies- the value of Latin America's exports of goods (26 countries),*/ estimated at US\$ 87.5 billion in 1983, continued its declining trend in relation to 1982 (-2.8%) and 1981 (-8.6%), after recording an average annual growth rate of 11% between 1970 and 1981. The sole cause of this fall was the reduction in unit value, since in volume the exports grew by 7% in 1983 after remaining constant in 1982.

For its part, the value of the goods imported by Latin America fell significantly again in 1983 as compared with the previous year (-30%), amounting to US\$ 56.3 billion. It should be noted that the imports of the region had already dropped by 20% in 1982 as compared with 1981. Contrary to what occurred with exports, this reduction was caused almost entirely by the fall in volume (-28.4%), since the unit value of the imports scarcely changed in 1983 and fell only slightly in 1982.

As a result, the balance of goods in 1983 closed with an enormous surplus of almost US\$ 31.2 billion. This result reflects the great of recessive adjustment made by most of the economies of the region. Trade in goods had regularly shown deficits up to 1981, but already in 1982 it closed with a surplus of US\$ 8.7 billion. From the beginning of 1982, in order to cope with the balance-of-payments crisis, many countries of the region embarked on drastic and painful processes of adjustment, which led to a striking reduction of imports. In fact, in 1983 the volume of purchases abroad fell by more than 10% in all the Latin American countries except Bolivia, Costa Rica, El Salvador, Haiti, Honduras, Nicaragua and the Dominican Republic, where the volume of imports increased, although this did not make up for the drastic reductions recorded in 1982.

Moreover, the contraction of the quantum of imports reached unusually large dimensions in the oil-exporting countries (-42.4%): a figure which contrasts with a fall of only 13.2% in the other countries of the region.

*/ These comprise the member countries of ALADI, the CACM countries, Trinidad and Tobago, Barbados, Guyana, Haiti, Panama, the Dominican Republic, Jamaica, Suriname, Bahamas and Grenada for 1981 and 1982, but exclude Jamaica, Suriname, Bahamas and Grenada in 1983, through lack of information on these four countries for this year.

The dramatic result achieved on the goods balance was influenced by the considerable transformations observed in the merchandise trade balances in Mexico (which after showing a deficit of US\$ 4.1 billion in 1981 obtained surpluses of 6.9 and 12 billion in 1982 and 1983 respectively); in Chile (in which a surplus of US\$ 1 billion replaced the small 1982 surplus and the deficit of US\$ 2.7 billion recorded in 1981); in Brazil (which increased by US\$ 5.5 billion the positive balance it had achieved in 1982), and in Venezuela (which augmented by US\$ 6 billion the surplus attained in 1982).

Furthermore, the surplus on the trade in goods was more pronounced in the group of oil-exporting countries, which succeeded in more than doubling their 1982 surplus, while the remaining countries replaced a deficit of US\$ 800 million by a positive balance of US\$ 7.9 billion in 1983.

Nonetheless, the efforts that have had to be made to reduce the external sector imbalances have been very painful for the region. The drastic devaluations made in numerous countries in order to balance the external accounts helped to strengthen inflationary pressures, which led to the application of stabilization policies in the fiscal and monetary fields and other measures aimed at reducing domestic expenditure. The recessive effects normally generated by these policies in the short run were added to those produced by the heavy fall in imports. Like the drop in the latter in real terms, the increase in the volume of exports (7%) also reflected the adjustment effort made by the Latin American economies.

The unfavourable evolution of world trade for the fourth year running and the considerable reductions in commodity prices prevented this expansion in the volume of exports from achieving an equal increase in their value. Indeed, this fell, as already noted, by 1.3% for the region as a whole and by almost 6% for the group of oil-exporting countries.

Since the fall in the unit value of exports was considerable more pronounced than that of imports, the terms of trade suffered in 1983 a downturn of slightly over 7%, after having already declined by 5% in 1982 and 7% in 1981. For the non-oil-exporting countries of the region, the terms of trade in 1983 were not only around 30% less than in 1978, but also fell to their lowest level in the last half-century.

By contrast with what occurred in 1982, when the impact of the turnaround in the trade balance on the current account was neutralized by the sharp rise in payments of interest and profits, the part played in 1983 by the larger trade surplus in reducing the disequilibrium on current account was reinforced by a drop in financial remittances (-8%), as well as by the 29% fall in net service payments. The diminution of the latter was due exclusively to the oil-exporting countries, which in 1982 had succeeded in reducing their net service payments by 16% and recorded a variation of almost 35% in 1983.

/The deficit

The deficit on current account, which had been continuously increasing from 1976, reaching a record high of US\$ 41 billion in 1981, declined by 10% in 1982 and fell dramatically to under US\$ 8.5 billion in 1983. Practically all the countries of the region contributed to this result with the exception of Bolivia, Costa Rica, Haiti and Nicaragua, which showed larger negative balances on their current account than in the previous year.

Nevertheless, the decline of the deficit on current account was accompanied by a much more drastic reduction, for the second year running, in the net movement of capital. This, which already between 1981 and 1982 had dropped from US\$ 38 billion to US\$ 17 billion, fell in 1983 to under US\$ 4.5 billion. As in the previous year, the net total of investments and external loans was much lower than the net payments of interest and profits. In 1983 Latin America made a transfer of real resources to the exterior of almost US\$ 29.5 billion, which was 46% more than the already high amount transferred in the previous year.

The net inflow of capital was also lower in 1983 than the deficit on current account, as it had been in 1981 and 1982. In 1983, however, Latin America succeeded in reducing to a fifth the negative balance on the balance of payments in relation to the previous year, this falling from almost US\$ 20 billion in 1982 to a little less than US\$ 4 billion in 1983. Even so, this deficit is still 60% higher than that of 1981. In the improvement of the global balance in 1983 a major role was played by the oil-exporting countries, particularly Mexico, which, after showing a deficit of over US\$ 11 billion in 1982, achieved a small surplus of US\$ 250 million in 1983. The other countries merely succeeded in reducing their negative balance, which fell from almost US\$ 8.8 billion to US\$ 4.2 billion in 1983.

At all events, it is evident that the solution of the most serious problems affecting the region depends mainly on international factors largely beyond the control of the Latin American countries, which in turn limits the economic policy options. Thus, just at a time of international recession, the region was obliged to generate an enormous trade surplus, to transform itself into a net exporter of resources and to accept extremely high costs in order to refinance part of the accumulated external debt. This process of adjustment, apart from being recessive, is inequitable, since it frees the creditor countries and the international financial system from the share of responsibility that they should bear in the present payments position of Latin America, making the whole weight fall on the debtor countries, where the limits of political and social tolerance are being reached as a result of the recessive policies being applied to generate surpluses of foreign exchange in order to service the external debt (see table 1).

2. Primary commodities 1/

a) Evolution of the international market

One of the main features of the present economic situation has been the dramatic fall in the prices of primary products in the international market.

Table 1

LATIN AMERICA: BALANCE OF PAYMENTS
(Millions of dollars)

Country	Exports of goods FOB			Imports of goods FOB			Balance of goods		
	1981	1982	1983	1981	1982	1983	1981	1982	1983
<u>Latin America</u>	32 451	30 292	37 460	101 207	81 331	56 290	-2 606	8 698	31 170
<u>All-extractive countries</u>	1 174	48 418	43 500	44 753	36 006	20 670	4 381	10 543	23 230
Bolivia	500	320	300	680	429	500	229	399	290
Brazil	1 174	1 174	1 300	2 562	2 181	1 630	182	153	670
Chile	17 308	17 308	21 500	24 038	14 489	9 000	-4 100	6 885	12 000
Colombia	3 149	3 231	3 360	3 602	3 787	2 830	-553	-557	130
Cuba	1 174	1 174	2 180	1 748	1 954	1 370	783	464	810
Venezuela	19 465	13 365	14 670	12 123	13 166	5 340	7 840	3 199	9 330
<u>Non-extractive countries</u>	9 20	33 480	43 560	56 307	45 325	35 620	-6 987	-1 345	7 940
Argentina	3 142	7 389	7 600	8 432	4 873	3 900	710	2 725	3 900
Bahamas	176	222	...	783	740	...	-607	-518	...
Barbados	161	200	...	521	501	...	-358	-293	...
Brazil	21 276	20 172	22 300	22 091	19 395	16 000	1 185	777	6 300
Colombia	3 219	3 230	3 220	4 763	5 176	4 390	-1 544	-1 946	-1 470
Costa Rica	1 003	971	800	1 090	780	840	-87	91	-40
Chile	3 337	3 706	3 840	6 513	3 643	2 840	-2 876	63	1 000
El Salvador	735	738	720	898	822	880	-100	-84	-160
Honduras	19	19	...	57	65	...	-38	-46	...
Nicaragua	1 299	1 250	1 130	1 540	1 284	1 140	-241	-84	-10
Guyana	546	276	200	400	320	250	-54	-44	-50
Haiti	150	174	140	338	278	290	-208	-104	-150
Honduras	784	676	690	899	681	680	-115	-5	10
Jamaica	974	767	...	1 297	1 209	...	-323	-442	...
Nicaragua	500	429	440	649	649	710	-397	-217	-270
Panama	343	345	330	1 441	1 441	1 250	-1 098	-1 096	-920
Paraguay	399	396	370	772	711	570	-373	-315	-200
Dominican Republic	1 188	768	810	1 452	1 257	1 280	-264	-489	-460
Suriname	474	429	...	511	465	...	-37	-36	...
Uruguay	1 230	1 256	1 060	1 592	1 038	600	-362	218	460

/Table 1 (concl.)

Table 1 (continued)

Country	Net service payments a/			Net payments of credits b/			Balance or current account c/			Net movement of capital d/			Global balance d/		
	1981	1982	1983	1981	1982	1983	1981	1982	1983	1981	1982	1983	1981	1982	1983
<u>Latin America</u>	10 717	8 668	6 360	9 595	37 123	33 950	-40 934	-27 045	-8 460	38 420	17 056	4 470	-2 514	-19 990	-3 930
<u>oil-exporting countries</u>	6 254	5 142	1 320	11 742	14 391	14 690	-12 791	-9 506	7 050	12 868	-1 635	-6 800	97	-11 141	250
Bolivia	215	122	120	340	415	360	-312	-121	-190	319	153	-250	7	32	-440
Ecuador	467	450	500	722	775	760	-1 027	-1 070	-590	656	742	490	-371	-328	-100
Mexico	1 192	-316	-2 500	6 696	10 429	10 900	-14 075	-3 122	3 700	14 531	237	-1 700	456	-2 885	2 000
Peru	237	213	270	1 020	1 053	1 200	-1 810	-1 823	-1 340	1 138	1 753	1 370	-672	-70	30
Trinidad and Tobago	119	-22	50	150	409	350	407	44	410	291	232	-1 210	698	276	-800
Venezuela	4 004	4 701	5 680	574	1 312	1 100	4 026	-3 414	5 060	-4 047	-4 752	-5 500	-21	-8 166	-440
<u>Non-oil-exporting countries</u>	4 463	3 740	5 040	17 653	22 731	19 260	-28 143	-27 539	-15 510	25 532	18 691	11 270	-2 611	-8 849	4 240
Argentina	1 704	472	1 000	3 781	4 753	1 800	-4 712	-2 477	-1 900	1 519	1 607	1 900	-3 193	-670	0
Bahamas	-699	-611	...	139	115	...	-84	-40	...	90	51	...	6	11	...
Barbados	-239	-253	...	17	19	...	-113	-42	...	101	49	...	-12	7	...
Brazil	2 862	3 589	3 860	10 274	13 494	10 200	-11 760	-16 314	-7 660	12 361	11 121	6 280	621	-5 193	-1 380
Colombia	169	-11	-60	426	580	590	-1 895	-2 291	-1 780	2 328	1 647	-170	433	-644	-1 950
Costa Rica	44	-20	-20	304	343	430	-407	-206	-400	358	331	300	-49	125	-100
Chile	701	555	510	1 464	1 921	1 620	-4 805	-2 372	-1 090	4 942	1 027	440	137	-1 345	-650
El Salvador	110	122	60	100	85	110	-266	-240	-230	217	170	340	-49	-70	110
Grenada	-1	4	...	0	0	...	-23	-36	...	19	50	...	-4	-6	...
Guatemala	312	231	190	107	122	120	-567	-376	-270	265	338	260	-302	-38	-10
Guyana	76	66	50	54	55	50	-179	-166	-160	153	160	150	-26	-6	-10
Haiti	69	73	60	13	14	20	-225	-142	-170	168	97	160	-57	-45	-10
Honduras	62	52	50	153	202	190	-321	-249	-220	249	204	200	-72	-45	-20
Jamaica	-63	-94	...	202	207	...	-338	-419	...	141	295	...	-197	-125	...
Nicaragua	82	23	80	93	154	170	-371	-393	-530	677	270	510	106	-123	-20
Panama	-879	-849	-850	228	236	340	-496	-577	-370	423	525	370	73	-14	0
Paraguay	-22	92	40	29	-14	10	-378	-374	-250	421	329	150	43	-62	-100
Dominican Republic	42	-97	-160	293	254	290	-416	-457	-390	454	311	340	38	-146	-50
Suriname	100	124	...	-14	-10	...	-119	-154	...	132	111	...	13	-43	...
Uruguay	35	266	230	74	197	320	-468	-235	-90	494	-182	40	26	-417	-50

Source: 1981, 1982: International Monetary Fund; figures on Ecuador (1982), Guyana (1982), Nicaragua (1981, 1982) and Trinidad and Tobago (1982) are preliminary ECLA estimates subject to revision. Figures for Chile, 1981, 1982 and 1983; Central Bank of Chile, 1983; ECLA preliminary estimates subject to revision.

a/ Excluding net payments of profits and interest.

b/ Including net private unrequited transfer payments.

c/ Including long- and short-term capital, official unrequited transfers and errors and omissions.

d/ Variation in international reserves (with inverted sign) plus counterpart entries.

The declining trend which began in the fourth quarter of 1980 differs from the earlier ones in that it has been more prolonged and widespread, affecting both the minerals and metals sector, agricultural commodities, and almost every variety of foodstuffs and beverages.

The severity of the phenomenon may be illustrated by an examination of the combined price index for primary commodities of UNCTAD,^{2/} which, excluding oil, shows a fall of 16.1% in 1982 following a decrease of 15.6% in 1981 (measured in current dollars). This reduction of over 30% is the biggest known in the last twenty years. Although it can certainly be attributed in part to the strengthening of the United States dollar in relation to the other convertible currencies, the contraction of prices, measured in terms of SDRs, was also very significant: 7.5% and 10.5% in 1981 and 1982 respectively (see table 2). Table 2 gives a global overview of the evolution of the prices of the main primary products exported internationally.

If this drop in prices is considered in terms of constant dollars, the situation is even more serious (see table 3). For a considerable number of products, the real prices in 1982 are less than half their 1950 levels and some of them do not even reach the levels of the 1930s.

The main causes of the fall in prices have been the stagnation and subsequent decline of industrial production and real income on account of the world economic recession, which have weakened the import demand for these products; the appreciable reduction in stocks (resulting in turn from the unprecedented levels of interest rates and the diminution of demand); and the emergence of surpluses in consequence of the investments made during the preceding period of high prices. For many basic commodities, the current market prices are below the costs of production.

Apart from the immediate causes, other long-standing factors have contributed to the present crisis. In the long term, the demand for primary commodities has grown very slowly owing to the reduction in the amount of materials used per unit of production as a result of technological advances, the limitation of demand for natural raw materials and their replacement by synthetic products, and the decline in demand on account of the increased protection of national agriculture in the OECD countries.

At the same time, the supply of primary commodities has shown a rising trend owing to the need of the developing countries to increase the volume of their exports, in an attempt to augment their foreign currency income. This long-term trend towards a supply surplus gives rise to a gradual decline in prices.

In global terms, for the developing countries as a whole, it is estimated that the drop in commodity prices has caused a fall in export revenues of around US\$ 8 billion in 1981 and in the region of US\$ 13 billion in 1982.^{3/}

Table 2
PRICES OF MAIN EXPORT COMMODITIES
(Dollars at current prices)

	Annual averages										Growth rates			
	1983										1983			
	1970-1980	1977	1978	1979	1980	1981	1982	Jan.-Oct.	1978	1979	1980	1981	1982	Jan.-Oct.
Unrefined sugar a/	12.8	8.1	7.8	9.7	28.7	16.9	8.4	8.6	-3.7	24.4	195.9	-41.1	-50.3	2.4
Coffee (mild) a/	121.8	240.2	185.2	183.4	178.8	145.3	148.6	138.9	22.9	-1.0	-2.5	-18.7	2.3	-6.5
Cocoa a/	86.3	172.0	154.4	149.4	118.1	94.2	79.0	93.7	10.2	-3.2	-21.0	-20.2	-16.1	18.6
Bananas a/	11.8	14.0	13.7	15.7	18.9	19.2	18.4	21.0	-2.1	13.9	21.2	1.6	-4.2	14.1
Wheat b/	125.1	105.6	131.9	164.4	177.4	178.5	163.0	161.5	24.9	24.6	7.9	0.6	-8.7	-0.1
Maize b/	127.5	114.4	132.5	154.8	210.3	181.0	137.4	157.9	15.8	16.8	35.9	-13.9	-24.1	14.9
Beef a/	82.2	68.4	97.1	130.9	125.9	112.2	108.4	111.4	42.0	34.8	-3.8	-10.9	-3.4	2.8
Fishmeal b/	354.7	454.0	410.0	395.0	504.0	468.0	353.0	447.0	-9.7	-3.7	27.6	-7.1	-24.6	26.6
Soya b/	232.4	280.0	268.0	298.0	296.0	288.0	245.0	274.0	-4.3	11.2	-0.7	-2.7	-14.9	11.8
Cotton a/	61.2	73.9	72.9	77.4	94.2	85.8	72.8	83.8	-1.4	6.2	21.7	-8.9	-15.2	15.1
Wool a/	131.5	153.6	157.4	190.5	194.5	178.2	154.6	145.0	2.5	21.0	2.1	-8.4	-13.2	-6.2
Copper a/	69.6	59.3	61.9	90.0	98.6	79.0	67.2	73.9	4.4	45.4	9.6	-19.9	-14.9	10.0
Tin c/	3.9	4.9	5.8	7.0	7.6	6.4	5.8	5.9	18.4	20.7	8.6	-15.8	-7.8	1.7
Iron ore b/	18.3	20.2	19.7	24.0	28.9	25.9	27.1	25.2	-2.5	21.8	20.4	-10.4	4.6	-7.0
Lead a/	25.3	28.0	29.9	54.6	41.1	33.0	24.8	19.5	6.8	82.6	-24.7	-19.7	24.8	-21.4
Zinc a/	29.7	26.7	26.9	33.6	34.6	38.4	33.8	33.8	0.7	24.9	3.0	11.0	-12.0	-
Bauxite b/	103.5	134.8	138.4	152.6	212.5	216.3	208.3	182.6 ^{d/}	2.7	10.3	39.3	1.8	-3.7	-12.3
Crude petroleum e/														
Saudi Arabia	10.0	12.4	12.7	17.0	28.7	32.5	33.5	29.6 ^{d/}	2.4	33.9	68.8	13.2	3.4	-11.6
Venezuela	10.1	12.4	12.4	16.8	27.6	32.0	32.0	28.3	-	35.5	64.3	15.9	-	-11.6

Source: UNCTAD, Monthly Commodity Price Bulletin, Supplements 1960-1980 and vol. III No. 2, November 1983; International Monetary Fund, International Financial Statistics, Yearbooks 1981 and vol. XXXVI, No. 12, December 1983.

Note: Unrefined sugar, FOB Caribbean ports, for export to the free market; Coffee, mild Colombian arabica, ex-dock New York; Cocoa beans, daily price average (futures), New York/London; Central America Bananas, CIF Hamburg; Cotton, Mexican M 1-3/32", CIF North Europe; Wool, clean, combed, quality 50s, United Kingdom (New Zealand Wool Marketing Corp., Clacton-on-Sea, England); Beef, frozen and boned, all origins, United States ports; Fishmeal, all origins, 64-65% proteins, CIF Hamburg; Wheat, United States, No. 2 Hard Red Winter, FOB; Maize, Argentina, CIF North Sea ports; Soya, United States, No. 2 yellow, in bulk CIF Rotterdam; Copper, spot quotations on the London Metal Exchange, electrolytic copper bars; Tin, spot quotations on the London Metal Exchange; Iron ore, Canada, Mount Wright, 64% Fe, CIF North Sea ports; Lead, spot quotations on the London Metal Exchange; Zinc, spot quotations on the London Metal Exchange; Bauxite, Guyana (Baltimore); Oil, Saudi Arabia (Ras Tanura), Venezuela (Tia Juana).

- a/ U.S. cents per pound.
- b/ Dollars per metric ton.
- c/ Dollars per pound.
- d/ Average January to September.
- e/ Dollars per barrel.

Table 3

LATIN AMERICA: PRICE MOVEMENTS, EXPRESSED IN DOLLARS OF
CONSTANT VALUE, FOR THE MAIN EXPORT PRODUCTS^{a/}

(1980 constant dollars)

	1970- 1980	1977	1978	1979	1980	1981	1982	1983 ^{b/}	1978	1979	1980	1981	1982	1983 ^{b/}
Unrefined sugar	20.8	11.6	9.4	10.5	28.7	17.7	9.0	8.9	-18.2	10.7	174.1	-38.1	-49.1	-1.1
Coffee	190.1	342.2	223.7	198.5	178.8	152.7	159.4	144.4	-34.6	-11.3	-9.9	-14.6	4.4	-9.4
Cocoa	130.1	244.9	186.4	161.6	118.1	98.9	84.8	97.4	-23.9	13.3	-26.9	-16.2	-14.3	14.9
Bananas	19.7	20.0	16.6	17.0	18.9	20.2	19.7	21.8	-16.8	2.3	11.0	7.1	-2.4	10.7
Wheat	208.7	150.4	159.2	178.0	177.4	187.5	174.9	167.9	5.9	11.8	-0.3	5.7	-6.8	-4.0
Maize	213.6	163.0	160.0	167.5	210.3	190.1	147.4	164.2	-1.8	4.7	25.5	-9.6	-22.5	11.4
Beef	142.4	97.5	117.2	141.7	125.9	117.8	116.3	115.8	-20.3	-20.9	-11.2	-5.4	-1.3	-0.1
Fishmeal	606.6	646.7	495.2	427.5	504.0	491.6	378.8	464.8	-23.4	-13.7	-17.9	-2.5	-23.0	22.7
Soya	394.6	398.9	323.7	322.5	296.0	302.5	262.9	284.9	-18.9	-0.4	-8.2	2.2	-13.1	8.4
Cotton	101.1	105.2	88.1	83.8	94.2	90.1	78.1	87.1	-16.3	-4.9	12.4	-4.4	-13.3	11.5
Wool	217.2	218.8	190.1	206.2	194.5	187.2	165.9	150.8	-13.1	8.4	-5.6	-3.8	-11.4	-9.1
Copper	124.2	84.5	74.7	97.4	98.6	83.0	72.0	76.8	-11.6	30.4	1.2	-15.8	-13.3	6.7
Tin	6.0	7.0	7.1	7.6	7.6	6.7	6.2	6.1	1.0	7.6	0.3	-11.4	-7.4	-1.6
Iron ore	30.8	28.8	23.8	26.0	28.9	27.2	29.0	26.2	-17.3	9.3	11.3	-6.2	7.0	-9.7
Lead	40.3	39.9	36.2	59.1	41.1	34.6	26.6	20.3	-9.4	63.3	-30.4	-15.8	-23.3	-23.7
Zinc	50.9	38.1	32.5	36.4	34.6	40.3	36.2	35.1	-14.6	11.9	-5.1	16.8	-10.1	-3.0
Bauxite	160.9	192.1	167.2	165.2	212.5	227.2	223.6	189.9	-13.0	-1.2	28.6	7.0	-1.6	-15.1
Crude petroleum														
Saudi Arabia	14.2	17.7	15.3	18.4	28.7	34.1	35.9	30.8	-13.6	20.3	56.0	18.8	5.3	-14.2
Venezuela	14.3	17.7	15.0	18.1	27.6	33.6	34.4	29.4	-15.2	21.0	52.1	21.9	2.1	-14.5

Source: UNCTAD, Monthly Commodity Price Bulletin, Supplements 1960-1980 and Vol. III, No 11, November 1983; International Monetary Fund, International Financial Statistics, Yearbooks 1981 and Vol. XXXVI, No 12, December 1983.

a/ Deflated by the index of the unit value of exports of manufactures (SITC Sections 5-8) of developed countries to developing countries on a CIF basis. The deflator estimated for 1983 is based on data published by the World Bank in its six-monthly review of commodity price estimates (June 1983).

b/ Includes only the period January-October 1983. For bauxite and Saudi Arabian petroleum, only the period January-September was taken.

In the first ten months of 1983 an improvement was to be seen in the situation of commodity prices in the international market. This was due, on the one hand, to some degree of economic recovery in relation to previous years in a number of industrialized countries, particularly the United States, and on the other, to imbalances between supply and demand in the case of some products on account of adverse climatic conditions or changes in the agricultural policy of certain countries. Even so, it must be stressed that this rising price trend has not been constant, nor has it extended to all basic commodities during 1983. For some products, a standstill in this price recovery has been noticeable from August 1983, while in other cases, such as the minerals and metals sector, there has been a marked fall. Although, in general, international prices may be considered to have improved in 1983 as compared with the previous year, it must be stressed that the present level of prices is 15% lower than in 1981 and 20% lower than in 1980.

b) The situation in Latin America

To appreciate the dependence of the Latin American countries on the export of their primary commodities it is enough to consider that, although their relative importance declined in the last decade, they still represent approximately 80% of the value of Latin American exports (or, if fuels are excluded, around 40%).

For this reason, the performance of this sector, from the standpoint of the primary commodities exported and the prices obtained, has a considerable impact on the economies of the countries of the region.

The repercussions of the fall in price of the primary commodities of the region can be gauged from a price index of the main commodity exports of Latin America prepared by ECLA on the basis of their international quotations in February and June 1983 (see tables 4 and 5). This quarterly index comprises the 24 main products exported by the region (16 if oil and its derivatives are included). The weightings assigned to the three groups of products that constitute the exports of Latin America were calculated on the basis of the average value of exports of these lines in the period 1979-1980. Thus, if oil is excluded, the relative weights are apportioned as follows: food and beverages sector, 57.1% (tropical zone products 48.4% and temperate zone 8.6%); agricultural raw materials, 20.8%, and minerals and metals, 22.2%.*/

According to these calculations, the prices of the food and beverages group, taken as a whole, fell by 32% in the period 1980 to 1982. The subgroup of tropical products, which includes products such as sugar, bananas, coffee and cocoa, dropped by 34% and the temperate zone subgroup, with products such as wheat, maize and meat, fell by 24%. The index for agricultural raw materials, which include products such as cotton, wool, hides and skins, soya oil and fishmeal, fell by 16%. Minerals and metals, for their part, suffered a downturn of 23%. For the 24 products taken together, the index showed a decline of 27% between 1980 and 1982. In the case of oil and derivatives, the index increased by 10% in 1982 as compared with 1980, but was markedly lower than in 1981.

*/ If oil is included, the relative weights are as follows: food and beverages 29.7%, agricultural raw materials 10.8%, minerals and metals 11.5%, oil and derivatives 48.0%

Table 4

LATIN AMERICA: INDEX OF MAIN EXPORT COMMODITY PRICES ON THE WORLD MARKET

(1980 = 100)

Product	1978	1979	1981	1982	1983 ^{a/}
<u>I. Foodstuffs and beverages</u>	70.6	77.9	79.8	67.5	67.0
Tropical zone	72.5	76.5	76.9	66.0	65.1
Sugar	27.2	27.2	58.9	29.3	29.4
Bananas <u>b/</u>	76.5	86.8	108.8	100.0	123.7
Bananas <u>c/</u>	61.4	75.9	95.4	90.9	109.9
Cocoa	130.7	126.4	79.8	66.9	79.2
Coffee <u>d/</u>	103.6	102.6	80.6	83.1	77.1
Coffee <u>e/</u>	105.6	112.5	83.1	90.7	82.7
Coffee <u>f/</u>	79.2	85.5	89.3	68.8	67.5
Prawns	79.1	118.0	95.9	143.3	115.2
Temperate zone	59.7	85.6	96.0	75.8	77.4
Beef	50.4	87.5	93.8	71.8	72.2
Maize	63.0	73.6	96.1	65.6	73.7
Wheat	75.0	91.7	100.0	92.2	91.1
<u>II. Agricultural raw materials</u>	85.9	101.5	95.9	83.4	88.2
Soya oil	101.5	110.7	84.8	71.9	80.7
Cotton <u>g/</u>	77.4	82.2	91.1	77.6	88.2
Cotton <u>h/</u>	92.1	102.4	98.9	80.2	81.1
Hides	104.8	158.8	73.9	77.8	79.5
Fishmeal	81.3	78.4	92.9	70.0	89.1
Soya flour	82.6	93.8	97.7	84.4	86.9
Wool	80.9	97.9	91.7	79.6	75.0
Timber <u>i/</u>	55.0	91.7	85.0	81.7	82.6
Timber <u>j/</u>	82.2	126.5	82.6	65.5	54.6
Soya	90.5	100.7	97.3	82.7	90.7
Tobacco	86.1	94.5	112.5	128.0	131.1
<u>III. Metals</u>	66.9	89.9	85.5	77.3	79.2
Bauxite	65.2	71.8	101.8	98.1	86.0
Copper	62.8	91.3	80.1	68.2	76.0
Tin	76.7	92.0	84.3	76.4	78.1
Iron ore	78.5	89.5	95.5	97.1	92.8
Silver	26.2	53.9	51.1	38.6	59.1
Lead	72.7	132.8	80.3	60.3	47.6
Zinc	77.7	95.1	111.0	97.6	96.1
<u>IV. Petroleum and petroleum products</u>	44.4	60.6	115.5	110.7	98.1
Crude	42.7	58.8	115.5	113.0	99.9
Petroleum products	48.2	64.4	115.5	105.7	94.4
<u>Total, excluding petroleum and petroleum products</u>	72.8	85.3	83.8	72.9	74.0
<u>Total 26 products</u>	59.3	73.5	98.9	91.1	85.6

Source: ECIA, on the basis of official figures.

^{a/} Preliminary figures (not including 4th quarter).

^{b/} Exports to the United States.

^{c/} Exports to the Federal Republic of Germany.

^{d/} Colombian mild arabica.

^{e/} Other mild arabicas.

^{f/} Santos (Brazil) No. 4.

^{g/} Mexico SM 1-1/16".

^{h/} Peru, Pima No. 3.

^{i/} Non-coniferous.

^{j/} Coniferous.

Table 5
LATIN AMERICA: PRICE INDEX OF MAIN PRODUCTS EXPORTED BY THE REGION

Products	1978				1979				1980			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Foodstuffs and beverages a/	76.0	71.8	65.6	68.5	65.1	73.4	85.5	87.4	94.6	103.5	101.4	100.4
Tropical zone c/	79.5	74.2	66.8	69.3	63.9	72.2	84.3	85.5	94.2	104.8	101.2	99.6
Temperate zone d/	56.3	58.8	59.2	64.1	71.6	80.5	92.5	98.1	97.1	96.2	102.4	104.7
<u>Raw materials</u>												
Agriculturals e/	82.0	85.9	85.1	91.6	99.5	102.5	103.1	100.6	99.7	91.8	101.0	107.5
Metals f/	65.8	62.4	66.5	72.7	82.5	88.2	91.1	97.9	113.3	94.6	98.0	94.1
Petroleum and petroleum products	44.9	43.6	44.4	44.8	47.0	55.2	68.8	71.4	89.9	99.4	105.6	105.2
Total, excluding petroleum and petroleum products	74.8	72.5	69.7	74.1	76.0	82.6	90.2	92.3	99.8	99.0	100.6	100.6
Total, including petroleum and petroleum products	60.6	58.8	57.6	60.1	62.1	69.5	80.0	82.4	95.0	99.3	103.0	102.8

Table 5 (concluded)

Products	1981				1982				1983		
	I	II	III	IV	I	II	III	IV	I	II	III
Foodstuffs and beverages <u>a/</u>	90.5	80.7	72.9	74.0	74.4	68.4	63.7	63.6	63.9	68.4 ^{b/}	68.6 ^{b/}
Tropical zone <u>c/</u>	88.5	77.9	69.8	71.4	73.1	66.9	61.9	62.2	61.5	66.3 ^{b/}	67.4 ^{b/}
Temperate zone <u>d/</u>	101.5	95.8	89.6	88.7	81.4	77.2	93.8	71.0	77.3	79.7	75.2 ^{b/}
<u>Raw materials</u>											
Agriculturals <u>e/</u>	99.1	95.4	90.7	86.6	86.4	86.4	81.1	79.8	82.4 ^{b/}	86.2 ^{b/}	96.0 ^{b/}
Metals <u>f/</u>	85.9	85.8	85.5	84.7	79.1	77.3	76.1	76.5	81.3 ^{b/}	79.0	77.2 ^{b/}
Petroleum and petroleum products	114.5	117.2	116.0	114.3	112.4	108.5	116.6	110.3	105.4	93.3	95.7 ^{b/}
Total, excluding petroleum and petroleum products	91.3	84.8	79.3	78.9	77.8	74.0	70.0	69.7	71.4	74.4 ^{b/}	76.1 ^{b/}
Total, including petroleum and petroleum products	102.4	100.3	96.9	95.9	94.4	90.6	90.0	89.2	87.8 ^{b/}	85.5 ^{b/}	85.5 ^{b/}

Source: ECLA, on the basis of official figures.

a/ Tropical zone and temperate zone.

b/ Preliminary figures.

c/ Sugar, bananas (exports to United States), bananas (exports to Federal Republic of Germany), cocoa, coffee (Colombian mild arabicas), coffee (other mild arabicas), coffee (Santos No. 4) and prawns.

d/ Beef, maize and wheat.

e/ Soya oil, cotton (Mexico SM 1-1/16"), cotton (Peru, Pima No. 3), hides, fishmeal, soya flour, wool, timber (non-coniferous), timber (coniferous), soya and tobacco.

f/ Bauxite, copper, tin, iron ore, silver, lead and zinc.

It must be emphasized that the food and beverages sector, of fundamental importance for the countries of the region, suffered the most abrupt descent. It is pertinent also to point out that, in comparison with the prices of basic commodities in other developing regions, Latin America was the most affected by the grave crisis besetting this key sector.

An analysis of the combined price index (excluding oil) prepared by ECLA for the first quarter of 1983 indicates a rise of around 2.4% in comparison with the fourth quarter of 1982, although the prices of certain products continued to suffer further falls, as was the case with unrefined sugar, coffee, wool, zinc and bauxite. If the calculations had included oil, the price of which dropped in the international market, the combined index would have fallen by 1.5%.

In the second quarter of 1983 the combined index (excluding oil) followed its general rising trend, though this was only moderate, showing an increase of 4.2%. This phenomenon can mainly be attributed, on the one hand, to the reactivation of demand in the United States market, which resulted in increments in stocks, and, on the other, to bad climatic conditions which adversely affected the harvests in several countries (soya, cocoa, sugar, cotton, bananas). Notwithstanding, it should be noted that this increase in the quoted prices of the main basic commodities was offset by the decline in the price of oil. If oil were included in the ECLA index it would be seen that Latin America suffered a global fall of 4.9% in the second quarter of 1983 as compared with the first.

In the third quarter of 1983 the combined index (including oil and derivatives) shows a rise of 2.4% over the preceding quarter (2.3% if oil and derivatives are excluded). It should be noted that the global rise in the index in these last three months was due above all to increments in the prices of agricultural raw materials (in particular cotton, fishmeal and soya oil) and of petroleum products. In the same period, however, there were notable falls in the minerals and metals sector (copper, tin, iron ore) and in foods of the tropical and temperate zones (bananas, wheat and beef).

In terms of constant dollars, the prices of the basic products of interest to Latin America continued their downward trend in the first nine months of 1982 (see table 10). The terms of trade for these commodities, which had fallen by 14% in the period 1981-1982, declined again in 1983 in relation to the unit value of the manufactures exported by the developed to the developing countries.^{4/}

It can be affirmed, then, that, although the rise in world commodity prices in the first nine months of 1983 was a positive element, it had only a marginal impact on the Latin American economies.

c) Impact of the crisis on export revenues

As a result of the abrupt fall in commodity prices there has been a considerable drop in export revenues for all producers. In Latin America the situation is particularly serious because of the dependence of the region on these products. In some cases the fall in revenues was due not only to lower international prices but also to a reduction in volumes exported. In other

/cases the

cases the greater volume exported compensated only partially for the drop in prices. This situation has considerably impaired the region's capacity for meeting the burdensome servicing of its external debt, while at the same time it has affected investments in this sector: a circumstance which will assuredly have major implications in the longer term, both for the producer and the consumer countries.

Although final global figures for the Latin American countries in 1982 are not yet available, the following examples illustrate the effect of the fall in international prices on the export revenues of some countries.

The value of Argentine meat exports dropped by around 16% in 1982 as compared with 1980, while their volume showed an increase of over 13%. If the unit value in 1982 had been the same as in 1980 the export revenues would have risen by over US\$ 275 million (equivalent to 35% of the meat exports made in 1982).

In the case of Brazilian coffee, the export revenues generated in 1982 were 25% below those of 1980. The main reason was the decline in their unit value, which in 1982 was 33% below the level of 1980. This reflects the incidence of the fall of prices on revenue, rather than that of the volumes exported. If the unit value of 1982 had maintained the 1980 level, coffee revenues would have risen by more than US\$ 950 million in 1982 and would have represented more than 50% of the 1982 coffee exports.

In Colombia, in 1982, the export revenues derived from coffee were 34% lower than the 1980 level. The fall in price meant for the country -assuming that in 1982 the unit value had been equal to that of 1980- a loss in export revenues of over US\$ 320 million (equivalent to 20% of the coffee exports in 1982).

In Chile the volume of copper exported in 1982 was 16% higher than in 1980, but the unit value fell by 30%, from which it is estimated that the net export revenues deriving from copper fell by 20%. If the unit value of 1982 had maintained the level of 1980, the revenues would have risen by US\$ 760 million, equivalent to 44% of the copper exports in 1982.

The revenues deriving from tin in Bolivia fell sharply in 1982 by around US\$ 100 million (36% of the value of the tin exports in 1982), owing mainly to the fall in the unit value of such exports, which is estimated to be 20% to 30% lower than in 1980.

These examples give a clear idea of the effects of the phenomenon on the economies of the region. Given the vital importance of these products for Latin America, it is difficult to see how the present economic crisis can be surmounted without a major recovery in this sector. Hence the countries of the region should join forces without delay and co-ordinate measures to improve the value of their basic commodities in the international market, to defend their prices, and to organize and exert greater bargaining power in negotiating with the consumer countries. The problems currently besetting the commodity sector undoubtedly present a complex challenge, but their solution is of vital and pressing importance for the countries of Latin America.

/d) Intra-regional

d) Intra-regional trade

Table 6 illustrates the dependence of Latin American commodity exports on the markets of industrialized countries, particularly those of the OECD, which in the last fifteen years have absorbed around 70% of the total exports of these products. Although the region is, with a few exceptions (wheat, maize, dairy products, rubber and some minerals), self-sufficient in a large number of primary commodities, there is little intra-regional trading activity, despite the existence of some zones and subregions with surpluses and others with deficits. In recent years, only a fifth of the value of the total imports of primary commodities (excluding oil) came from the region.

A recent study on this subject ^{5/} shows that over 90% of the total Latin American imports of dairy products, alcoholic beverages, natural rubber, hides and skins, processed tobacco, fertilizers and barley comes from outside the region. Similarly, the proportion of imports coming from non-regional countries for products such as vegetable oils, wheat, maize, raw tobacco and stock feed can be estimated at close to 80% of the total. As regards cereals, it is worth noting that more than 80% comes from a limited number of industrialized market economy countries, especially the United States and Canada.

Only in the case of coffee, tea and cocoa (80%), sugar (78%), fruits and vegetables (65%), textile fibres (59%) and meat (50%) is a high proportion of domestic demand satisfied by intra-regional trade.

With regard to minerals, it is estimated that the proportion of exports from countries of the region in Latin America's total imports is high in products such as: copper (73%), tin (71%), silver (61%), lead (60%) and zinc (55%), but low in products such as aluminium and nickel.

In the case of oil and its derivatives, there is a great potential in the region for reorienting and increasing intra-regional trade. Thus, 55% of Latin America's imports of fuels and allied products came from extra-regional sources in 1981, while two-thirds of its exports of these products went to industrialized countries.

An analysis of the situation of the ALADI countries, which concentrate the greater proportion of regional imports and exports, shows that all the importing countries (except Paraguay) depend largely on extra-regional suppliers. Brazil is prominent among these, having a trade deficit in petroleum and petroleum products of almost US\$ 10 billion with the rest of the world, whereas in intra-ALADI trade its deficit in this respect is barely US\$ 755 million.

On the other hand, the surpluses obtained by the leading exporters (Mexico, Venezuela, Ecuador and Peru) in intra-regional trade are modest compared with the balances achieved in trade with other markets (see table 7).

This is clear evidence that the participation of the Latin American countries in the satisfaction of regional demand is very much below the existing potential, and should be increased without delay.

Table 6
DEVELOPING AMERICA^{a/}: STRUCTURE OF EXPORTS ACCORDING TO DESTINATION

	Year	World (millions of dollars FOB)	Developing America (percentage)	Developing countries including America (percentage)	Developed countries (percentage)	Countries with centrally planned economy (percentage)
Total (SITC Sections 0-9)	1970	17 510 (100.0)	17.3	19.2	74.2	6.4
	1975	46 486 (100.0)	20.6	24.6	65.7	8.8
	1981	117 049 (100.0)	21.1	27.2	64.5	7.3
Foodstuffs and agricultural raw materials (SITC Sections 0-2 and 4, excluding divisions 27 and 28)	1970	8 186 (100.0)	8.6	11.2	77.4	11.3
	1975	18 408 (100.0)	10.3	17.7	62.9	19.4
	1981	33 813 (100.0)	9.6	18.9	57.0	21.9
Minerals (unwrought and metalliferous) and non-ferrous metals (SITC divisions 27, 28 and 68)	1970	3 091 (100.0)	4.6	4.8	89.9	5.3
	1975	4 576 (100.0)	8.9	9.5	82.8	7.6
	1981	8 567 (100.0)	7.9	13.3	81.0	5.6
Fuels (SITC Section 3)	1970	4 323 (100.0)	32.2	33.4	65.6	-
	1975	16 928 (100.0)	26.4	27.7	70.5	-
	1981	54 393 (100.0)	23.4	26.9	72.5	0.2
Primary commodities (SITC Sections 0-4 and division 68)	1970	15 600 (100.0)	14.3	16.1	76.6	7.0
	1975	39 912 (100.0)	15.4	21.0	68.4	9.8
	1981	96 773 (100.0)	17.2	22.9	67.9	8.3
Manufactured products (SITC Sections 5-8, excluding division 68)	1970	1 855 (100.0)	41.7	44.2	54.1	1.5
	1975	6 313 (100.0)	43.6	47.7	49.5	2.7
	1981	19 312 (100.0)	41.6	49.5	48.6	1.8

Source: United Nations, *Monthly Bulletin of Statistics*, May 1982 and 1983.

^{a/} Includes the member countries of ALADI, the Central American Common Market and Bahamas, Barbados, Bermuda, Cuba, Dominican Republic, French Guyana, Greenland, Guadeloupe, Guyana, Haiti, Jamaica, Martinique, Netherlands Antilles, Panama, Suriname, Trinidad and Tobago and the U.S. Virgin Islands.

Table 7
 TRADE ACCOUNT BALANCES FOR FUELS AND FOODSTUFFS, ALADI COUNTRIES, 1980
 (Millions of dollars)

	Fuels		Foodstuffs		Agricultural raw materials		Minerals and metals	
	Intra-regional	Rest of world	Intra-regional	Rest of world	Intra-regional	Rest of world	Intra-regional	Rest of world
Argentina	-286	-522	536	4 075	-171	280	-228	-357
Bolivia	154	3	-19	-16	18	18	119	529
Brazil	-755	-9 645	-489	7 402	10	437	-264	1 169
Colombia	-176	-279	58	2 229	-35	89	-114	-303
Chile	-441	-445	-146	60	138	229	450	2 329
Ecuador	191	1 147	140	496	-6	-11	-25	-181
Mexico	178	9 191	-55	-654	-10	-166	-39	-1 227
Paraguay	-98	-72	23	22	67	87	-13	-3
Peru	21	589	-45	51	9	44	196	1 028
Uruguay	-110	-352	96	198	-27	188	-54	-44
Venezuela	1 290	16 238	-121	-1 600	-49	-266	-21	-408
Total	-32	15 853	-22	12 263				

Source: Evolución y estructura del intercambio comercial de los países que integran la ALADI, 1952-1980, ALADI/Sec./ Estudio 5, 1983.

In this respect, and as a form of bilateral negotiation among the countries, a form of counter-trade might be instituted, so that, for example, purchases of fuels might be compensated by purchases of metals, minerals, agricultural raw materials and foodstuffs. This formula of regional complementation would establish cross-currents of trade among the countries, thus utilizing the potential of the Latin American market and at the same time saving a considerable amount of foreign currency.

According to the trade balance results for the eleven ALADI countries (see table 7), it is calculated that a reorientation of trade between the net fuel-exporting countries and those with trade surpluses of minerals and metals, foodstuffs and agricultural raw materials would have signified in 1980 a potential saving of foreign exchange of some US\$ 4.8 billion. This evidences the need to join forces to achieve a greater degree of regional complementation, to dynamize the intra-regional trade flows and administer more efficiently the factor which is currently scarcest: foreign exchange.

Another interesting aspect of intra-regional trade in commodities is the relation between regional dependence on foreign sources and the level of processing of the basic products. Thus, while 98% of cocoa imports are of regional origin, only 34% of Latin American imports of chocolate come from the region. In the case of fresh, chilled or frozen meat imports, those of Latin American origin comprise 54% of the total regional imports, but the percentage falls to 33% for canned meat and to only 3% for meat subproducts with a greater degree of processing.

All these observations show that there are ample possibilities for action by the countries of the region in three important areas of intra-regional trade in basic commodities. In the first place, it is evident that there is an enormous potential in Latin America for reactivating the trade flows of these products towards the region. This aspect could attain capital importance in the foreseeable future, if the industrialized countries maintain or intensify a protectionist attitude against regional products and/or there is increasingly wide application of restrictive trade measures against commodity imports of Latin American origin. Secondly, the current Latin American demand for certain foods, especially cereals and dairy products, would in itself justify greater efforts on the part of certain countries of the region that have undeniable comparative advantages in their production to increase the regional supply of these products, thereby diminishing dependence on imports from abroad. To achieve this it would be necessary to settle certain current problems that affect intra-Latin American trade to the general detriment. Thirdly, the region possesses a potential and capacity for joint action sufficient to attain a greater degree of processing of the primary commodities it produces.

An action programme of this type would contribute to regional economic security, dynamize the production and marketing of many products, diminish the region's dependence on the markets of the industrialized countries as the main destination of its commodity sales (thereby reducing regional vulnerability), contribute to a considerable saving of foreign exchange, foster regional integration and increase Latin American bargaining power in the international sphere.

3. Manufactures

a) Production of manufactures */

The early years of the 1980s have been particularly discouraging for the manufacturing sector of Latin America, which is passing through one of its most critical periods since the war. This situation presents its own special features in each country, as well as with respect to regional industry which has been notably transformed and strengthened in recent decades.

In analysing the process of industrialization in Latin America over the last 30 years, with the reservations needed when generalizing about the region as a whole, one might distinguish three or perhaps four stages.

The first, from 1950 to 1965, was characterized by the growth of manufacturing production at an annual average rate of 6.3%. During the early years of this stage most of the countries adopted deliberate policies for stimulating industrialization, so that the external conditions, which were relatively unfavourable to Latin America (there was a fall in the terms of trade), did not bring about a marked slackening in the growth rates of regional manufacturing production.

The second stage, from 1965 to 1973, was characterized by an increasing improvement in external conditions. This had a positive influence on economic activity, resulting in a rapid average expansion of 8.1% annually in the manufacturing sector.

The third stage extends from 1973 to 1980 and begins with the rise in the prices of oil. It is characterized by a more moderate growth in Latin American industry (5.2%), due largely to the contraction in the economic growth rate of the industrialized countries, which brought with it a pause in the expansion of Latin American exports and a deterioration in the terms of trade of the non-oil-exporting countries.

From 1980 onwards, the growth rates in the region began to be negative, -2.2 and -1.4% in 1981 and 1982 respectively, revealing perhaps the start of a fourth stage for the manufacturing sector of Latin America.6/

Despite all the changes and advances in the productive structure of the Latin American countries, the result has not been a significant increase in their share in world manufacturing production, which, amounting to 4% in 1950, rose only to 5.2% in 1980 and fell back to 5.0% in 1981. Hence the region as a whole remains inserted in the system of the international division of labour as essentially a producer of primary commodities.

*/ The items appearing in SITC sections 5 to 8, excluding division 68, are considered "manufactures".

In 1981, the developed market economy countries generated 60% of the world production of manufactures and the socialist economies around 30%, leaving only 10% to the developing countries. However, the evolution of regional industry may be regarded as positive in the sense that it succeeded in expanding its production more rapidly than the world average during the period 1950-1980. This statement has different degrees of validity for the different Latin American countries, which are highly heterogeneous among themselves, above all if one considers that the manufacturing sector of Latin America is heavily concentrated in the three largest countries, i.e., Argentina, Brazil and Mexico. These three were responsible, in 1982, for 78% of the gross manufacturing product of the region (compared with 70% in 1950), even though Argentina has lost a good deal of its importance in this field in the last decade (see table 8). It is noticeable that the countries of the Southern Cone (Argentina, Chile and Uruguay), which were the first to become industrialized, have appreciably reduced their contribution to the regional manufacturing product, which fell from 37.1% in 1950 to only 13.7% in 1982.

The striking growth achieved by Mexico and Brazil shows that industrial development prospered most in the countries with the largest domestic markets. In 1982 these two countries commanded 68% of regional manufacturing production (compared with 44% in 1950), so that they have a great influence on the trends in the regional manufacturing sector taken as a whole. Both Brazil and Mexico had to face a downturn in industrial activity at the beginning of the present decade. In 1982 manufacturing production in Mexico fell by 2.4%, after four years of sustained growth of over 8% per year. Manufacturing production in Brazil stagnated in 1982, after decreasing by 9.9% in 1981. The Brazilian industries most affected by the crisis were those in the capital goods sector, the production of which dropped by almost 11% in 1982, after declining by around 19% in 1981.

b) Trade in manufactures

One of the salient features of the industrial evolution of Latin America is the growing proportion of manufactures in its export flows, with the prevalence, however, of asymmetry in the structure of the trade flows and continued dependence on imports of manufactures with a high technological content.

Nonetheless, the degree of competitiveness attained by numerous regional industries in the international markets and the growing application of export strategies led to an increase in the share of Latin American exports of manufactures in the world total from 0.7% to 1.8% between 1955 and 1981.

This expansion in the exports of Latin American manufactures, accompanied in turn by a diminution in the relative weight of industrial imports in the world total (from 12.6% in 1955 to 7.4% in 1981) tended to improve the relative trade balance of regional manufactures as against the rest of the world, although with rapidly increasing negative balances in absolute terms. Thus, the Latin American deficit on its trade in manufactures exceeded US\$ 60 billion in 1981: the

Table 8

LATIN AMERICA: PERCENTAGE DISTRIBUTION OF GROSS
MANUFACTURING PRODUCT

	1950	1980	1982a/
<u>More developed countries</u>	<u>70.3</u>	<u>77.6</u>	<u>77.9</u>
Argentina	26.6	12.1	10.0
Brazil	22.4	37.9	37.5
Mexico	21.3	27.6	30.4
<u>Moderately developed countries</u>	<u>23.7</u>	<u>16.7</u>	<u>16.4</u>
Colombia	5.3	4.9	4.9
Chile	6.8	3.0	2.6
Peru	4.6	3.4	3.5
Uruguay	3.7	1.3	1.1
Venezuela	3.3	4.1	4.3
<u>Less developed countries</u>	<u>6.0</u>	<u>5.7</u>	<u>5.7</u>
Costa Rica	0.4	0.5	0.5
El Salvador	0.6	0.4	0.3
Guatemala	0.9	0.8	0.8
Honduras	0.2	0.2	0.2
Nicaragua	0.2	0.3	0.3
Bolivia	0.8	0.4	0.3
Ecuador	1.3	1.5	1.6
Haiti	0.2	0.1	0.1
Panama	0.2	0.3	0.3
Paraguay	0.5	0.4	0.4
Dominican Republic	0.7	0.7	0.8
<u>Latin America (19 countries)</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: UNIDO, The Capital Goods Industry in Latin America: Present Situation and Prospects, 1983.

a/ Preliminary figures.

/equivalent of

equivalent of over three times the value of Latin American exports of such products.*/ Nevertheless, it must be remembered that in 1955 the imbalance was much greater, amounting to 17 times the value of the region's exports of manufactures (see table 9). Obviously, this situation is conditioned by the particular circumstances of the individual national economies, which differ greatly among themselves. The greater part of the expansion in Latin American industrial exports was concentrated in the three most highly developed countries: Argentina, Brazil and Mexico. In 1980, more than 70% of the Latin American exports of manufactures originated in these three countries and included at the same time a considerable proportion of metal products and machinery (35%), which is an important indicator of the degree of industrial development reached by these countries, coupled with the role of the manufacture of these products as an instrument in stimulating technological progress.

In the other countries of the region, in contrast, one of the typical features of their patterns of industrial development has been the sluggishness in the metal products and machinery industry (that of capital goods in particular), both in magnitude and in technological content, and above all with regard to its share in total exports of goods. This is clear from table 10, which also shows the great and continuing dependence of most of the countries on these imports of advanced technology. An analysis of the data on the foreign trade of a number of Latin American countries shows that only Brazil has a trade balance in the metal products and machinery sector that comes close to equilibrium.

It should be borne in mind, however, that in 1965 the machinery and equipment branch represented only 10% of regional sales of manufactures, rising by 1980 to a proportion of 31.2% (see table 11), though this trend is mostly due to the industrial trajectory of the three largest countries (Argentina, Brazil and Mexico), which supply close to 90% of the total of these products.

It seems imperative at this point to revert to the subject of the greater utilization of the Latin American potential and the regional market. The high proportion of purchases of machinery and equipment made abroad, in contrast with an installed production capacity which is not fully used, not only in the larger countries but also even in some medium-sized and small countries, points to extensive and interesting prospects for regional-type import substitution action, which has not been sufficiently exploited and could stimulate domestic activity.

It should be noted, however, that one of the decisive factors that has shifted purchases outside the region is the form of sale practised by the industrialized countries through finance mechanisms offering terms which can be described as special. This is the case with sales of capital goods which form part of large-scale projects (hydroelectric power plants, oil refineries, etc.) where generally the local producer cannot compete against the foreign offer with long-term credit and low rates of interest.

*/ In 1981 Latin American imports of manufactures amounted to US\$ 79 706 million, while the value of exports was US\$ 19 289 million.

Table 9

LATIN AMERICA AND THE CARIBBEAN: VALUE OF EXPORTS AND IMPORTS
OF MANUFACTURES

(FOB, millions of dollars)

Year	Exports	Imports
1955	289	5 123
1965	696	7 782
1973	4 547	20 296
1975	6 266	35 264
1979	14 623	58 404
1980	16 676	65 081
1981	19 289	79 706

Source: ECLA, on the basis of information from the Handbook of International Trade and Development Statistics, 1979, 1981 and 1983 and Monthly Bulletin of Statistics, May 1983.

Table 10

PROPORTION OF EXPORTS AND IMPORTS OF METAL PRODUCTS AND
MACHINERY IN TOTAL EXPORTS AND IMPORTS OF GOODS, 1980

	Exports	Imports
Argentina	7.5	25.1
Bolivia	0.0	42.8
Brazil	18.2	23.1
Chile	1.3	28.1
Colombia	3.5	39.4
Costa Rica	3.6	30.7
Dominican Republic	0.7	22.2
Ecuador	1.2	53.3
El Salvador	2.0	24.2
Mexico	4.5	36.5
Paraguay	0.0	67.6
Peru	1.8	30.3
Uruguay	5.0	48.2
Venezuela	0.3	29.7

Source: ECLA, La situación y las perspectivas de la producción y el abastecimiento de bienes de capital en América Latina (E/CEPAL/SEM.13/R.2).

Table 11

LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF EXPORTS
OF MANUFACTURES

(Percentages)

	Total manufac tures	Chemical products <u>a/</u>	Machinery and equipment <u>b/</u>	Other manufac tures <u>c/</u>
1965	100	28.0	10.0	62.0
1980	100	21.4	31.2	47.4

Source: ECLA, on the basis of information from the Handbook of International Trade and Development Statistics, various issues.

a/ Section 5 of the SITC.

b/ Section 7 of the SITC.

c/ Sections 6 and 8 of the SITC, except division 68.

A case in point where sales are made at the expense of the underutilization of local production capacity is that of the hydroelectric works in Brazil. Whereas in the Itaipú construction Brazilian and Paraguayan industry was able to supply 82% of the electrical and mechanical part, in smaller hydroelectric works, where the technical difficulties were not so great, the proportion supplied by Brazilian industry fell in some cases to 65%. Thus, for strictly financial reasons, the national component had no relation to the technological capacity developed by local industry, remaining far below its potential levels.

It is for this reason that, both in the financial and other spheres, the region should seek a solution at the Latin American level by making use of its purchasing power and of the importance of its own market, which in general has not been fully exploited.

A wider and deeper knowledge of the conditions of their own market would place the industrial agents and the governments of Latin America in a better position to take joint measures, whether to achieve common goals in the medium and long term or to confront organized and concentrated powers in the international sphere.

As regards the latter, a particularly important aspect is the growing influence of transnational enterprises in the Latin American manufacturing sector, since they control significant portions of the world markets, technologies and financial resources. An eloquent example of this is the fact that over 50% of the manufactures imported by the United States from the region come from affiliates of North American enterprises (1977). It is indispensable, therefore, to develop a level of bargaining power which will enable the functioning of these enterprises to be brought in line with national and regional interests.

c) Destination of exports of manufactures

As can be seen in table 12, the greater proportion of Latin American exports of manufactures continues to go to the developed market economy countries. It is noteworthy, however, that in the last 25 years the percentage of Latin American sales to this market has been diminishing, falling from 73% in 1955 to 49% in 1981. This reflects a diversion of trade in manufactures towards the other developing countries, particularly the Latin American market (42%).

The regional economic integration groupings have played an important part. In 1980 exports of manufactures among the ALADI countries represented 33% of the total volume of such exports, while in the case of the Andean Group its own subregional market absorbed 30% in that same year (compared with only 18% in 1970).

With regard to intra-CACM exports, close to 80% of the total volume of manufactures exported by the five member countries went to the group's own market. Nonetheless, the great impetus achieved by CACM intra-zonal trade during the 1960s declined during the period 1970-1980, reaching negative growth rates at the beginning of the 1980s. Among the causes of this were the lack of compliance with integration commitments (such as the accumulation of debts among the member countries through their incapacity to meet the costs of reciprocal trade),

Table 12

LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF MANUFACTURES
BY DESTINATION
(Percentages)

Year	World	Developed market economy countries	Socialist countries	Developing countries a/	Latin America and the Caribbean
1955	100	73.0	2.4	0.0	24.6
1965	100	54.0	1.2	0.8	44.0
1973	100	60.6	1.6	2.5	35.3
1975	100	49.3	2.7	4.2	43.8
1979	100	51.8	2.4	7.1	38.7
1980	100	46.5	1.7	8.3	43.5
1981	100	48.7	1.8	7.8	41.7

Source: UNCTAD, Monthly Commodity Price Bulletin, Supplements 1960-1980 and Vol. III, No. 11, November 1983; International Monetary Fund, International Financial Statistics, Yearbooks 1981 and Vol. XXXVI, No. 12, December 1983.

a/ Excluding Latin America and the Caribbean.

the incentives given to extra-regional sales, frontier problems, and the socio-political instability prevailing in the region.

Despite the difficulties in the way of the integration schemes, these have been closely associated with the industrialization of the member countries, dynamizing subregional trade current and creating a growing interdependence among their respective manufacturing sectors. Hence the processes of economic integration remain active and every effort should be made to overcome their present problems.

The exports of Latin American manufactures to the socialist countries and particularly to Eastern Europe are still negligible. They come essentially from Argentina and Brazil, and their relative proportion has not varied much since 1955. Moreover, the export structure continues to be based on primary commodities, whereas the imports contain a high proportion of manufactures. Just as with the market-economy industrialized countries, there is a persistent asymmetry in Latin America's trade patterns with the socialist countries.

In 1981, only 8% of Latin American exports of manufactures went to the other developing countries, so that it is imperative for the region to explore and promote to the utmost the possibilities of trade with these markets that may arise, just as in the case of trade with the socialist countries.

d) Recent evolution of the manufacturing sector

i) Production. In 1981 the Latin American countries found themselves involved in an economic crisis that can be regarded as the most prolonged and profound since the war. Manufacturing production fell in absolute terms, partly because of the great impact of the effects observed in Argentina and Brazil (1981) and Mexico (1982). Nonetheless, the contraction of production was quite general in both years, since ten countries of the region experienced a fall in industrial production in 1981 and 12 in 1982 */ (see table 13).

The dynamism and sustained growth of manufacturing inherited from the 1970s could not withstand this recessive situation, and factors of an internal and external nature combined to bring about a decline in both these aspects.

On the one hand, almost all the countries suffered a fall in domestic sales through the weakening of purchasing power (as in Mexico, Uruguay and the Central American countries) or through the deflection of domestic demand towards imported manufactures (as in Chile, Argentina, Uruguay, Colombia and Peru). On the other hand, the difficulties in ensuring a regular supply of inputs caused by the scarcity of foreign exchange had an adverse effect on industry. This was the case with Costa Rica, Guatemala, Honduras, Nicaragua and all the countries with little vertical integration of industry (which hence depends on imported inputs) and with economies subject to commercial and financial restrictions imposed by the process of adjustment aimed at balancing the external payments.

*/ Of the 18 countries for which information is available.

Table 13
LATIN AMERICA: GROWTH RATES OF MANUFACTURING PRODUCTION AND EXPORTS^{a/}

	Production			Exports		
	1980	1981	1982 ^{b/}	1980	1981	1982 ^{b/}
Argentina	-3.8	-16.0	-4.5	8.7	-6.6	2.9
Bolivia	-1.0	-3.8	-15.3	72.2	19.4	...
Brazil	7.6	-9.9	0.1	35.9	31.6	-12.9
Colombia ^{c/}	12.7	3.2	-2.0	48.9	-31.9	-18.7
Costa Rica	0.8	-3.7	-7.5	41.8	-0.3	-23.3
Chile	6.2	2.6	-21.6	21.2	-20.1	-14.6
Ecuador	3.6	5.1	4.6	14.3	-17.9	-24.4
Guatemala	6.0	-2.8	-6.6	34.0	-9.5	...
Haiti	7.0	3.9	1.2	-1.7	-6.8	...
Honduras	6.6	-2.0	-3.3	24.7	-17.8	-19.1 ^{d/}
Mexico ^{d/}	7.2	7.0	-2.4	18.4	-11.5	0.7
Nicaragua	12.3	2.7	-4.9	-11.0	-17.5	...
Panama	4.1	-2.7	5.6	3.3	0.0	17.6 ^{d/}
Paraguay	12.6	8.0	-4.5	-47.1	-10.8	...
Peru	5.2	-0.3	-2.4	11.5	-30.0	9.5 ^{d/}
Dominican Republic	5.0	3.0	5.0	-14.4	12.1	9.1
Uruguay	4.1	-4.6	-17.1	7.8	-10.0	-9.3 ^{d/}
Venezuela	1.6	-0.8	2.2	38.7	26.4	...

Source: ECLA, Economic Survey of Latin America, 1982, and ECLA, on the basis of OECD data.

^{a/} Countries for which statistical information is available.

^{b/} Preliminary figures.

^{c/} Exports of the main manufactured products.

^{d/} Non-traditional exports.

/A third.

A third element adversely affecting the manufacturing sector was the unsuitable handling by some countries of their internal economic policy. In certain countries industrialization has shown a tendency to lose its status as a priority factor of development, especially where policies of a monetarist type have been pursued with greatest orthodoxy, leaving the course to be followed by the economy in its development to the free play of market forces. In these cases it may even be considered that there has been a process of de-industrialization in recent years.

As a result of this, the regional manufacturing product declined by 2.2% in 1981 and 1.4% in 1982.

ii) Exports. The results achieved as regards regional exports of manufactures since 1980 reflect the difficult international circumstances affecting the Latin American economies. These circumstances worsened progressively in 1981 and 1982, and again in 1983.

In 1981 the value of Latin American exports of manufactures rose to US\$ 19 289 million, which represents an increase of almost 16% over the previous year, and equals 20% of the total regional exports of goods. However, this overall trend covers a very unequal evolution in the export performance of the different countries of the region. Thus, whereas the external sales of Brazilian manufactures in 1981 achieved a striking rise of 31.6% over the previous year, most of the countries registered negative rates, particularly Argentina and Mexico. Hence it was essentially the expansion of Brazilian sales -which also account for 50% of Latin American exports- that determined the regional result in that year.

The indicators available for certain countries presented a sombre picture in 1982. The greatest contractions in exports of manufactures, in the 12 countries for which data are available, occurred in Ecuador (-24.4%), Costa Rica (-23.3%), Honduras (-19%), Colombia (-18.7%), Chile (-14.6%), Brazil (-13%) and Uruguay (-9.3%).

In most of the countries external sales have been affected by the persistent protectionist measures of the industrialized countries, which adversely affect the Latin American exports of manufactures, and by the impact of the international recession, which weakened demand.

A second element which had a negative impact was the contraction of regional demand. In addition to the weakening of productive activity, the intensification of financial problems, and the effects of the painful adjustment processes adopted to contend with the balance-of-payments crisis in each country, most of the countries introduced measures restricting intra-regional trade, a step which has been detrimental to all the countries, especially the net exporters of manufactures. In the case of Brazil, 85% of that country's external sales to the ALADI countries consists of manufactures. Furthermore, the atmosphere of turbulence and instability prevailing in the Central American countries, together with other factors, had a debilitating effect on intra-regional trade.

/In Argentina,

In Argentina, Mexico and Peru the evolution of the exchange rate helped to restore, in part, the external competitiveness of their manufactures, so that positive export growth rates were achieved in 1982. In all three of these countries, external sales of manufactures had fallen sharply in 1981.

The experience of recent decades shows that the exports of the manufacturing sector of the region have been the most dynamic among the total sales of goods in Latin America, this being the only sector that has increased its share in the value of world exports. Hence, dynamic growth of exports of manufactures is a vital matter, not only in order to be able to close the foreign-exchange gap in industry, whose rapid development is import-intensive, but also to sustain inward-looking development, to meet other essential requisites of overall growth, and to tackle the urgent problem of servicing the debt.

Nevertheless, the exports of the region continue to include a relatively small proportion of manufactured products. It is imperative to increase this in order to achieve a structure more proportionate with the external world and to increase the share of Latin American industry in the most dynamic lines of international trade.

To this end, the region should introduce a new dimension into its Latin American market, reassessing the importance of integration and seeking at the same time a form of insertion into international trade that assures sufficient dynamism in the export of manufactures to the industrialized countries.

This highlights the need to continue the efforts to create a common platform of proposals for action, both to combat the increasing protectionism of the developed countries and to mitigate the structural imbalance that exists in relation to those nations.

4. External financing

a) The external debt

The external indebtedness of the region, which at the beginning of the 1970s came to US\$ 20 billion, rose rapidly in the past decade until, at the end of 1980, it exceeded US\$ 200 billion. In 1981 and 1982 it increased by about US\$ 70 billion, and it is estimated to have topped US\$ 300 billion at the end of 1983.

This striking increase in the region's external debt was made possible, in large measure, by the profound mutations that were constantly occurring in the international monetary and financing system, and which intensified from the beginning of the past decade onwards.

The most significant change has been the growing preponderance of private loans, particularly those by banks, within the rapid growth in credits to the region. These credit institutions have vastly increased their importance in the external financing system: from representing around a fifth of Latin America's

/overall debt

overall debt in the 1960s, the funds coming from this source constituted 80% of this debt at the end of the 1970s. In 1982 the region accounted for 60% of the total Third World portfolio of the private banking system. This figure did not vary much during 1983, and the net share of the Latin American countries in the total assets of the system became even more predominant.

The special characteristics of the commercial banking system led to a change in the structure of maturities and the costs of external indebtedness, shortening the former and making the latter higher and less predictable, particularly because of the unusually high rates of interest induced by the monetary and fiscal policies of the United States. But perhaps the aspect which has most affected the Latin American countries in the present crisis, and which highlights the increased vulnerability of the region as a result of its new financial relationship with the exterior, is the attitude towards risk and its assessment on the part of the private banking system in comparison with that of the official institutions. Thus, the strong negative impact of the current world economic crisis on Latin America's current account, coupled with other problems of an internal nature, has brought with it an acute procyclical contraction in the lending of the international banking system. This in turn has enormously hampered the process of adjustment to the crisis in Latin America, since the traditional anticyclical sources of credit -that is, the official multilateral and bilateral lenders- do not have sufficient resources to fill the gap left by the commercial banks.

This turnaround in the structure of Latin American financing and the resulting preponderance of private commercial sources gives rise to maturities and credit terms which are intrinsically incompatible with the financial needs of Latin America's economic and social development.

Moreover, although it is clearly necessary to revitalize the role played by the multilateral financing agencies of an intergovernmental nature, it must be emphasized that this needs to be done within the framework of a radical restructuring of the international financial and monetary system. It would be futile for the region to advocate a more dynamic role for the International Monetary Fund (IMF) if the latter continues to recommend recessive adjustment policies with a purely financial approach, in line with the restrictive attitude adopted by the international private banking system in the debt renegotiation processes in which numerous Latin American countries are involved.

The necessary restructuring of the international financial and monetary system, which is advocated even by some industrialized countries, should be carried out within a perspective which, on the one hand, frees it from the excessive incidence of the economic policy of the United States and, on the other, includes a long-term approach to the world economy which restores the paramount status of economic and social development, as a necessary prior step to the treatment of specifically financial issues.

Consequently, we are not advocating conjunctural "adjustments" within the framework of the prevailing institutional system, but basic and substantive changes in the system which will take fair and sufficient account of the

/aspirations of

aspirations of the developing nations in general and the Latin American countries in particular. In this context, for example, it must be stressed that the present structure of Latin American external indebtedness -quite apart from the errors of economic policy committed by some countries through excesses of orthodoxy or optimism- originates in a structural situation: its dependent form of insertion in the system of international economic relations and its condition of being basically a supplier of primary commodities. In sum, the chronic deficits and indebtedness of Latin America in its trade with the centres are inherently due to its structural position in the world economic order. The recent financial evolution merely intensified and amplified these trends.

An illustration of this problem of indebtedness is the fact that numerous countries of the region have initiated negotiations for rescheduling the payment of their debt to the private banks, sometimes after falling into arrears in the servicing of it. At the same time, the International Monetary Fund (IMF) has been inundated with requests for loans to help these countries to weather the adjustment process. This situation contrasts with what happened during the 1970s, when few countries had recourse to the IMF, since the private banks were at that time willing to finance the adjustment, without explicit conditions except in the most extreme cases.

The present crisis in Latin America regarding the servicing of the external debt has many causes and the incidence of the determining factors varies greatly from one country to another. Nonetheless, the most important common elements can be classified into those of an international nature and those of domestic origin

One of the main factors among the former is the recession in the industrialized countries, where from 1980 a decisive part was played by the monetarist policies of inflation control, especially in the United States.

These policies have given rise to big deficits both in the federal budget and in the trade balance of that country, which have had a pronounced effect on the financial and commercial evolution of the world economy. The persistence of these serious imbalances in the international economy makes all the more costly the resolute efforts of the Latin American economies to balance their external and internal accounts, within the conditions imposed by the International Monetary Fund and in the context of the recessive situations observed in the world economy in recent years, which are closely linked with the above-mentioned policies of the centres.

This recession has produced a persistent and drastic fall in the terms of trade of the region, which, coupled with the stagnation of the volume of exports caused by the same recession and the growing trends towards protectionism in the centres, has had a devastating effect on the capacity to generate foreign exchange through external trade, precisely at a time when the service of the regional debt is rising rapidly at a rate exceeding 26% per year. In turn, there has been a marked reduction in the granting of new credits, which are very important for the regular fulfilment of the terms of the loans; thus, the net flow of external indebtedness fell from an average of US\$ 37.5 billion in the period 1978-1981 to US\$ 32 billion during 1982, and to only US\$ 20 billion in 1983, the last figure representing less than 7% of the debt existing at the end of 1982.

/The elements

The elements just mentioned are of an exogenous nature and are accompanied by endogenous factors which also contributed to the present crisis of external indebtedness. Thus, during the 1970s some countries of the region applied development strategies based on external indebtedness, facilitated by the private financing system's policy of allocating its surplus resources, while other countries had to pay heavily for oil or face increased prices for raw materials or capital goods. The asymmetric nature of Latin America's insertion in the international economy, aggravated by the crisis, caused many of the structural problems generated by this asymmetry to erupt with unusual violence, while the domestic economic policies proved generally unable to surmount them.

Although a part of this phenomenon can be attributed to imprudent strategies of indebtedness -reinforced in some countries by monetarist policies- it is unquestionable that the structure of the international banking market was also partly responsible for the problems. The keen competition and excess liquidity at the outset affected the assessment of solvency on the part of the banks, and the inflow of external credit tended to exceed the capacity of the borrower countries to absorb these funds efficiently. Both these phenomena created mechanisms which reinforced each other in the direction of a massive accumulation of credits and stimulated speculative and consumer indebtedness, to the detriment of productive investment.

The external and internal events outlined above meant that the developing countries in general and Latin America in particular found themselves forced, in 1982 and 1983, to postpone part of the servicing of the external debt and renegotiate their terms of payment.7/

In Latin America, 14 countries, representing 80% of the total international debt to be rescheduled, have managed to renegotiate their payments. The wave of renegotiations began in August 1982 and has brought with it a brusque deterioration in the conditions of loans and increasingly difficult access to new autonomous credits. In turn, the contraction of the financing market and the stricter credit conditions have also complicated the servicing of the debt (see table 14).

The current process of rescheduling, in contrast to past experiences in the "Paris Club", has lacked an adequate institutional base. The preponderance of private indebtedness and the multiplicity and varying size of the lending banks have created a conflict of interests within the banking system itself and have prolonged and confused the renegotiation process, both for the banks and the economic authorities of the borrower countries, causing considerable uncertainty.

So far the banking system has made efforts to avoid an official declaration of default by its debtors. In many cases the main private banks have been supported by the monetary authorities of their countries of origin, which have also encouraged the smaller institutions to participate in the agreement to reschedule. The support of these smaller institutions has been more difficult to obtain because of a special feature of the rescheduling agreements: it is not only a question of rescheduling the amortization payments but also of granting "new credits", as a form of reducing the burden of the interest rate.

Table 14

LATIN AMERICA: PROVISIONAL DATA ON THE RENEGOTIATION OF THE EXTERNAL DEBT
OF SOME COUNTRIES WITH THE PRIVATE BANKING SYSTEM

(Billions of dollars)

Country	Gross global debt		Renegotiation of the debt ^{b/}			Credits approved ^{c/}		
	1981 ^{d/}	1982 ^{d/}	Beginning of negotiations	Amount	Maturities rescheduled	IMF	BIS ^{d/} /United States	New credits ^{e/}
Argentina	35.7	36.7	Sep 1982	13.0 ^{f/}	Sep 1982-1983	2.2	0.5 ^{g/}	1.1 trillón, 1.5
Bolivia	2.5	2.8	Oct 1982	... ^{h/}	...	0.3 ^{g/}	-	-
Brazil	71.9	80.2	Dec 1982	4.7 ^{i/}	1983	6.0	1.2	1.5
Costa Rica	3.5	4.2	Sep 1981	0.7 ^{j/}	1982-1983	0.1	-	-
Cuba	3.2	...	Sep 1982	0.3 ^{k/}	Sep 1982-1983	-	-	-
Ecuador	15.0	17.3	Jan 1983	3.3 ^{l/}	1983-1984	0.89	0.3	1.30
El Salvador	1.9	6.3	Oct 1982	2.48 ^{m/}	Nov 1982-1983	0.17	-	-
Honduras	1.1	...	Oct 1982	0.23	...	0.11	-	-
Mexico	75.0	81.4	Aug 1982	20.0 ^{n/}	Aug 1982-1984	3.97	1.63	5.00
Nicaragua	2.4	2.3	... 1982	0.56 ^{o/}	...	-	-	-
Panama	9.7	11.6	Jan 1983	2.40 ^{p/}	1983	0.94	-	0.45
Dominican Republic	1.9	1.9	... 1982	0.15	...	0.46	-	-
Uruguay	3.1	4.0	Feb 1983	0.71 ^{q/}	1983-1984	0.46	-	0.24
Venezuela	28.0	30.0	Oct 1982	16.3 ^{r/}	1983-1984	2.8 ^{s/}	-	-

Source: ECLA, on the basis of official data from the countries and various national and international sources.

^{a/} At end of year.

^{b/} At 30 June 1983 most of the countries were in the midst of renegotiating their debt. In some of them, despite major progress, the process was not yet definitely finalized.

^{c/} During 1982 and up to June 1983.

^{d/} Bank of International Settlements.

^{e/} Refers to credits granted by the international banking system within the framework of the renegotiation process.

^{f/} Corresponds to maturities of amortization payments on the public debt outstanding in 1982 and those falling due up to December 1983 (US\$ 6 billion), to those of the external private debt covered by Central Bank exchange insurance which fall due as from November 1982 (US\$ 5.5 billion), and maturities in respect of "swaps" (US\$1.5 billion).

^{g/} Credits requested.

Table 14 (concluded)

- h/ At the end of March 1983 the international banking system agreed to defer the collection of payments of capital and interest amounting to US\$ 460 million.
- i/ At the end of 1982 an application was made to foreign banks to grant: 1) US\$ 4.4 billion in new loans; 2) refinancing of US\$ 4.7 billion; 3) the maintenance of short-term loans to finance foreign trade operations ("roll-overs") for US\$ 8 billion, and 4) the restoration of inter-bank lines of credit to the levels reached on 30 June 1982 (US\$ 10 billion). At the end of July 1983 the international banking system had accepted points 1 to 3.
- j/ At the end of April 1983 it was reported that a preliminary agreement had been signed with the main creditor banks.
- k/ In August 1982 a request was made to defer the external debt service payments falling due between September 1982 and December 1983. In March 1983 agreement was reached with the creditor banks to refinance US\$ 140 million.
- l/ Includes amortization payments due in 1983 and 1984 (US\$ 2.1 billion) and the restructuring of short-term financial credits (US\$ 1.2 billion). At the end of April 1983 the Government reported that it had reached preliminary agreement with the twelve main creditor banks regarding the renegotiation of the debt. In July 1983 the contracts were signed to obtain the new credits. Until such time as the renegotiation process was completed, the banks extended for another three months the postponement of payments granted on 1 February 1983.
- m/ Corresponds to the service of the public debt between 1 November 1982 and 31 December 1983 (US\$ 1 220 million), and around 80% of the private debt (US\$ 1 260 million). In January 1983 agreement was reached with the international banking system for the renegotiation of the public debt.
- n/ Corresponds to the postponement for three months of amortization payments authorized by the international banking system on 20 August 1982, extended first to March 1983 and then to August of that year. In February 1983 a preliminary agreement was reached to renegotiate amortization payments of US\$ 20 billion falling due between August 1982 and December 1984.
- o/ During 1982 renegotiation was concluded in respect of this sum.
- p/ Corresponds to the refinancing of US\$ 2 billion of short-term amortization payments obtained in March 1983 and to the request for the refinancing of US\$ 420 million of amortization payments for the same year.
- q/ Corresponds to 90% of the amortization payments in respect of short- and medium-term credits due in 1983 and 1984. In early March 1983 the payments had been deferred for 90 days by agreement with the creditor banks. In July 1983 an agreement was signed with 80 creditor banks.
- r/ Corresponds to amortization payments of US\$ 13.6 billion which should have been paid in 1983 and payments of US\$ 2.6 billion falling due in 1984. At the end of March 1983 the Government requested a postponement of the amortization payments corresponding to the period April-June 1983. In June a further extension of three months was requested.

This formula has been drawn up in close association with the IMF. With only two exceptions, the signing of a stand-by credit agreement with the IMF has been an essential condition for the rescheduling of the debt by the banks. In its turn, the IMF has insisted that the set of measures taken by the banks to remedy the situation should be in line with the overall objectives of its respective stand-by credit agreement. In a good many cases, this has made it necessary to grant new credits to refinance part of the interest owed, under conditions which have generally operated in favour of the recessive cycle.

Other obstacles that have hampered a rapid rescheduling of the external debt have been, on the one hand, the difficulty of maintaining at adequate levels the short-term credit lines which are vital for the adequate functioning of trade, and, on the other hand, the problem of State guarantees for private indebtedness.

The above-mentioned factors have made a rapid solution of the crisis of indebtedness practically impossible, and after practically a year of renegotiation there are still some aspects of the agreements outstanding for many of the countries. The delays and uncertainty have made necessary a series of emergency measures to overcome the lack of financing and avoid default. There have been disbursements under the stand-by agreements of the International Monetary Fund and financing from the compensatory facilities of that institution. The big international banks that form the creditor committee often grant short-term bridging loans as a provisional financing measure until an agreement is reached with the smaller banks. The Bank for International Settlements, at the request of the OECD governments, has granted bridging loans to several countries and, finally, the United States Treasury has intervened directly and granted short-term bridging loans.

The foregoing has meant a lengthy process of rescheduling for all the parties concerned, causing heavy bank expenditure and great uncertainty as to the availability of credit, its terms, the nature of the guarantees, etc., all of which has complicated the management of the economy in the Latin American countries. Moreover, it is clear that the banks prefer to restrict the rescheduling commitments to a short-term: thus, they merely cover the payments pending for 1983 or, in the best of cases, 1983-1984.

The terms of the rescheduling are very similar for the various borrower countries, which is surprising, since, although the banks have argued that the rescheduling of the debt is not a matter of a regional agreement but rather of a case-by-case approach, the results in practice have been sufficiently alike for it to appear that the rescheduling terms have not taken into account the real capacity to pay -present or future- of the individual countries. In addition, for most of the countries the set of measures for rescheduling (risk commission, service commission and amortization periods) have meant a marked deterioration in the conditions of indebtedness (see tables 15 and 16).

Table 15

LATIN AMERICA: PROVISIONAL DATA ON THE TERMS OF RESCHEDULING OF THE DEBT IN SOME COUNTRIES^{a/}

	Spread over LIROR (percentage)				Total term (years)				Period of grace (years)				Commissions ^{b/}			
	1980/1981		1980/1981		1980/1981		1980/1981		1980/1981		1980/1981		1980/1981		1980/1981	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Argentina	0.67	2.13	2.5	7.5	7.0	5.0	...	3.0	3.0	1.09	...	...	1.25	...	...	1.25
Brazil	1.62	2.50	2.15	8.5	8.0	8.0	...	2.5	2.5	2.01	...	1.50	1.50	...	...	1.50
Costa Rica	1.13	2.25	-	6.0	8.5	-	...	3.0	-	1.23	...	...	-	...	...	-
Cuba	1.00	2.25	-	5.0	8.0	-	...	3.2	-	0.88	...	1.25	-	...	...	-
Chile	0.91	2.13	2.25	7.6	8.0	7.0	...	4.0	4.0	0.81	...	1.25	1.25	...	...	1.25
Ecuador	0.74	2.25	-	8.0	9.0	-	...	2.0	-	0.97	...	1.25	-	...	...	-
Mexico	0.65	1.88	2.25	7.6	8.0	6.0	...	4.0	3.0	0.70	...	1.0	1.25	...	...	1.25
Peru	1.12	2.25	2.25	8.2	8.0	8.0	...	3.0	3.0	1.07	...	1.25	1.25	...	...	1.25
Uruguay	0.88	2.25	2.25	9.1	6.0	6.0	...	2.0	2.0	...	...	...	...	...	...	...

Source: ECLA, on the basis of official data and information from various national and international sources.

a/ This information is provisional and subject to revision. Column 1980-1981 refers to the average of the terms of credit in 1980 and the first half of 1981. Column R refers to the maturities rescheduled, while column AC refers to the terms for additional credits.

b/ Calculated as a percentage of the total amount of the transaction and paid as a lump sum on signing the credit contracts.

Table 16

LATIN AMERICA: DETERIORATION IN TERMS OF INDEBTEDNESS OF SOME COUNTRIES^{a/}

Country	Spread over LIBOR (percentage)		Total term (years)		Commissions		Deterioration in terms ^{b/} (percentage)		Real cost of credit ^{c/}		
	1980/1981	R*AC	1980/1981	R*AC	1980/1981	R*AC	1980/1981	R*AC	1980/1981	R*AC	Increase
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(9):(8)	(9):(8)
Argentina	0.67	2.16	7.5	6.8	1.09	...	...	5.82	...	...	...
Brazil	1.62	2.12	8.5	8.0	2.01	1.50	44	6.26	7.50	9.2	9.2
Costa Rica	1.15	2.25	6.9	8.5	1.25	...	...	6.54	...	...	...
Cuba	1.00	2.25	5.0	8.0	0.88	1.25	28	6.18	7.41	19.9	19.9
Chile	0.91	2.16	7.6	7.7	0.81	1.25	125	6.02	7.32	21.6	21.6
Ecuador	0.74	2.25	8.0	9.0	0.97	1.25	146	5.86	7.39	26.1	26.1
Mexico	0.65	1.95	7.6	7.6	0.70	1.05	181	5.74	7.09	23.5	23.5
Peru	1.12	2.25	8.2	8.0	1.07	1.25	97	6.25	7.41	18.6	18.6
Uruguay	0.98	2.25	9.1	6.0	...	...	...	...	...	...	...

Source: ECLA, on the basis of official data and information from various national and international sources.

^{a/} The symbol R*AC represents a weighted average of the rescheduled loans and additional credits.

^{b/} Based on an index of the credit cost elements subject to negotiation: commissions (C), term (T), spread over LIBOR (S), all weighted by the amount of the credit and using the following formula:

$$\frac{C_1 + S_1}{T_1}$$

$$\frac{C_0}{T_0} - 1$$

$$\frac{C_0}{T_0} + \frac{S_0}{T_0}$$

$$\frac{T_0}{T_0}$$

where C_1 , T_1 and S_1 represent the value of these elements in 1983 and C_0 , T_0 and S_0 the average values of the years 1980-1981. It should be noted that the relative deterioration is not in itself an indicator of the quality of negotiation of a country, since this greatly depends on the initial position of the borrower.

^{c/} A real LIBOR of 5% is assumed to which is added $C/T + S$.

The process of renegotiation in 1982-1983 shows that the commercial banks have been able to co-ordinate their activities and have succeeded in avoiding defaults by having recourse to rescheduling. At the same time, they have managed to increase the profitability of the outstanding debt by imposing on all loans burdensome credit terms that were only applied very selectively during the 1970s. This explains the paradox of the dynamism of bank profits at a moment when a considerable part of their credit portfolios show evident signs of weakness.

It is clear that so far the greater part of the burden of adjustment in this crisis of indebtedness has fallen on the debtor countries. This fact -coupled with the high level of commitments with Latin America of the commercial banks, the considerations of risk ever present in their transactions, and their need to obtain profits- makes it imperative, along with the necessary improvement of relations with the private banks in the coming years, to revitalize the financing capacity of official multilateral institutions, in the context of a radical reform of the international financing and monetary system, with a view to creating an effective and more equitable system of financial for the urgent recovery and renewed stimulation of economic and social development in Latin America.

The primary aim of the agreements promoted by the IMF is to strengthen the capacity of the economies of the region to pay their external commitments, through the application of adjustment policies that have involved sharp recessive contractions, aggravated by the abrupt fall in the private flows of foreign capital.

The drop in income caused by this international situation has necessarily involved economic adjustments to the new external circumstances. Nonetheless, the absolute priority accorded to the payments problem, the financial depression and the scarcity of resources have exacerbated still further the adjustment process, accentuating the depression of demand, unemployment, and the under-utilization of installed capacity.

The drastic fall in income and the difficult international situation have called into question the long-term viability of the traditional orthodox remedies and have given rise to speculations on another type of adjustment. This new approach should lead to the proper structuring of the economies of the region, with international co-operation suited to the present circumstances, and with the primary goal of creating the long-term conditions for dynamic and self-sustained economic development.

The adjustment measures currently applied would seem to involve only short-term schemes for coping with serious balance-of-payments problems which are undeniably structural in character and whose solution would call for medium- and long-term policies.

In this regard, at the recent meeting in Quito the Latin American governments expressed their grave concern at the lack of adequate co-operation, both public and private, and the emphasis on recessive mechanisms, since the conditions for normal servicing of the debt can only be achieved if Latin America can regain the path of sustained and lasting economic and social development.

/b) Possible

b) Possible international action in the financial field

Solution of the problem of Latin America's external debt and its financing needs over the next few years requires, as a necessary but not in itself sufficient condition, the recovery and return to normality of the world economy.

Responsibility for this falls mainly on the industrial countries and the international agencies. Its two basic elements relate to an adequate expansion of international liquidity -in the context of a radical reform of the international financial and monetary system- and the implementation of reactivating policies by the OECD countries.

The first of these elements justifies the insistence of the developing countries, and Latin America in particular, on the need to expand the resources of the multilateral financing agencies. The IMF should be urged to make extra allocations of Special Drawing Rights. This is all the more urgent because of a clear tendency towards greater caution on the part of the private banks in respect of credit to the region. The second element points to the need to press for the adoption of expansive policies in the industrial countries. The stabilization programmes in the centres with public sector deficits and the predominant use of the monetary variables have an impact on interest rates, helping to keep them very high. This situation runs counter to the reactivation of the world economy, maintaining the depression of the terms of trade and the export volumes of the developing countries, and drastically reducing the levels of economic activity and the capacity to service the external debt.

The recovery and normalization of the world economy would help to relieve the international financing problem by stimulating trade and securing a return to more reasonable values -tending towards their historical levels- of the terms of trade and rates of interest.

These actions should be complemented, at the international level, by two additional measures: one, the abandonment of the growing protectionism of the industrial countries and, two, the assurance of a positive net annual flow of financing resources for the economic and social development of the region.

As regards this last aspect, which constitutes another necessary condition of crucial importance for protecting the interests of both the debtor and creditor countries, there is an evident need to institutionalize an effective and equitable mechanism for the rescheduling of the payments of the external debt and to avoid the possibility of recurrent renegotiations which would damage still further the international economic situation. It is likewise important to promote a change in the composition of the external liabilities of the region, by increasing the official component, and to induce the financing bodies to give serious consideration to the various proposals that have been put forward for the alleviation of the burden of amortization and interest payments on the external debt, so as not to force the debtor countries to apply measures which are politically and socially untenable.

/The banks

The banks must be induced to continue lending resources to Latin America. Their current reluctance to do so accentuates the recessive nature of the adjustment policies within the framework of the IMF conditionality. At the same time, there must be an attempt to increase the flexibility of credit grants by the international financing institutions, to suspend the application of graduation criteria (at least as regards the maturities of the loans), and to support the expansion and greater flexibility of their cofinancing operations.

Because of their fundamental importance, action must be taken on the nature and magnitude of the costs associated with international economic adjustment. Since 1981 Latin America has applied severe adjustment policies whose effects have already been depressive. There should be a most thorough assessment of the effects of the excessively rigorous application of the current lending criteria, and an attempt should be made to render them less rigid, since they are driving most of the countries of the region to the limits of political and social tolerance.8/

It is essential to tackle the problem of the distribution of the burden of the debt servicing and the cost of world economic adjustment. This calls for action by the international financing agencies, both public and private, to give greater symmetry to the temporal and geographical distribution of the adjustment and of the problems of servicing the debt. The international private banks and some of the governments of the industrial countries cannot elude responsibility in this.

From another standpoint, in order to soften, in the present crisis conditions, the effects on Latin America of disequilibria in the economies of the industrial countries, it seems necessary to stimulate measures to establish in the IMF special new facilities linked to the increase in the interest rates, and to foster the expansion and flexibilization of the existing mechanisms to deal with reductions in export earnings.

c) Regional consensus

The region's external debt, together with the most serious effects of the international crisis on the region, were analysed at the Latin American Economic Conference held in Quito from 9 to 13 January 1984. On that occasion the Latin American governments formulated important pronouncements of a political nature on the debt problem, which are transcribed below as recorded in the Quito Declaration:

"This crisis originated in internal and external factors, and our success in surmounting it is largely dependent on the latter, which are beyond the control of our countries and place serious constraints upon the options open to us for overcoming it. The economic policies of some industrialized countries have severely affected the developing countries and in particular those of the region, owing to the vulnerability and dependence of our economies and their increasing participation in international economic relations. These policies have brought about the constant deterioration of the terms of trade, diminishing trade, an inordinate increase in interest rates and the sharp contraction of capital flows. The overwhelming burden of our external indebtedness forms part of this picture.

/"Adjustments which

"Adjustments which cause prolonged declines in production, employment and living standards are not compatible with the objectives which we pursue. Consequently, the international community must take concerted action that will enable the countries of the region to continue their development without further delay.

"There is a close and inseparable link between foreign trade and international finance. Only the joint handling of the two elements which, among other effects, will enhance our countries' ability to pay -and to which ability the debt service must necessarily be adjusted- will contribute to a positive solution of the external debt problem.

"The attitude of the Latin American and Caribbean governments in recognizing and assuming their obligations calls for an attitude of shared responsibility by the governments of the creditor countries, the international financing organizations and the international private banks in the solution of the external debt problem, bearing in mind, furthermore, its political and social implications. Therefore, flexible and realistic criteria are required in the renegotiation of the debt, including repayment periods, grace period, and interest rates compatible with the recovery of economic growth. Only in this way can continuity be assured in the fulfilment of the debt service.

"We caution that it is neither fair nor rational that the countries of the region have become net capital exporters, thereby compounding their precarious economic situation which will finally prove to be contrary to the interests of the industrialized countries themselves and those of the world community.

"Furthermore, we point out that the maladjustment between the fiscal and monetary policies of certain industrialized countries is the cause of the rise in real interest rates which has persisted despite the fact that inflation has been diminished, thereby very seriously exacerbating the present situation. We therefore ask that the international community make the adjustments necessary to eliminate the causes of this distortion.

"We reaffirm the urgent need to take measures designed to reform the international monetary and financial system."

Furthermore, the Plan of Action that accompanies the Quito Declaration contains the common criteria agreed by the governments of the region for use in the negotiations held by each of them with the international agencies and the private banks for the rescheduling of the payments of their external debt. These basic criteria are as follows:

"i) In renegotiating the external debt, export earnings income should not be committed beyond reasonable percentages consistent with the maintenance of adequate levels of internal productive activity, taking into account the characteristics of the economies of each country;

/"ii) Formulas

"ii) Formulas should be devised to reduce debt service payments, by drastically reducing interests, commissions and spreads which substantially increase refinancing costs. Moreover, mechanisms should be explored to stabilize over time the amount of resources annually allocated to debt servicing in accordance with the payments profile of each country;

"iii) Terms and maturities must be substantially longer than at the present time, and grace periods must be broadened; and the possibility of converting a part of the accumulated debt into long-term obligations should be urgently explored, which will require the co-operation of the governments of developed countries and of international finance agencies;

"iv) The maintenance of a net, adequate and increasing flow of new public and private financial resources for all the countries of the region as an essential component of external debt renegotiations and as a guarantee of social and economic development, should be assured by granting additional commercial and financial credits;

"v) Likewise, in order to enhance our countries' ability to pay, debt renegotiation should be accompanied by commercial measures essential to improving the terms of access for exports from Latin America and the Caribbean in world markets and eliminating increasing protectionism by the developed countries."

5. Latin America and its economic relations with other geographical areas

So far, this study has attempted to present an overall view of the effects of the international crisis on Latin America. However, it seems pertinent to particularize on what has happened in the region's economic relations, and especially its trade, with the United States of America, the European Economic Community and the member countries of the Council for Mutual Economic Assistance (CMEA), on the one hand, and with the other developing countries, on the other. With the former, because they are important trade associates of the Latin American countries as well as suppliers of technology, finance and technical assistance. With the latter, because a concept is needed of the future potential of reciprocal trade and of the increase in mutual economic relations, in which so many hopes have been placed, especially in the present crisis.

a) United States

i) General background. During the period 1978 to 1982, the total imports of the United States rose from US\$ 186.5 billion to US\$ 255 billion, its coefficient of imports over the gross national product showing a value of 8.3% in 1982. Even though this value is somewhat lower than that of 1978, which was 8.6%, the importance of the American import market has remained substantially stable over recent years, representing 14% of the world total of imports (see table 17).

/Table 17

Table 17

UNITED STATES: TOTAL IMPORTS (CIF) BY ORIGIN, 1970-1982

(Billions of dollars)

	1970	1972	1975	1978	1979	1980	1981	1982	Percent age break down 1982	Index for 1982
<u>World</u>	<u>42.5</u>	<u>58.9</u>	<u>105.9</u>	<u>186.5</u>	<u>222.2</u>	<u>257.0</u>	<u>273.4</u>	<u>254.9</u>	<u>100.0</u>	<u>599.8</u>
1. Industrialized countries <u>a/</u>	28.9	40.2	58.2	101.5	113.7	126.3	143.2	143.7	56.4	497.2
EEC	9.8	13.2	18.0	31.2	35.8	38.3	43.7	44.6	17.5	455.1
Canada	11.8	15.8	22.8	34.6	39.0	42.0	46.8	46.8	18.4	396.6
Japan	6.2	9.6	12.3	26.5	28.2	33.0	39.9	39.9	15.7	643.5
2. Developing countries (excluding OPEC countries)	9.4	12.5	23.7	40.4	50.6	61.6	67.4	67.7	26.6	720.2
Latin America <u>b/</u> (excluding Venezuela)	4.6	5.6	13.2	20.4	26.7	33.3	35.0	34.6	13.6	752.2
Asia (excluding OPEC countries)	3.5	5.3	7.5	15.5	18.9	22.0	25.3	25.9	10.2	740.0
Africa (excluding OPEC countries)	0.7	0.8	2.0	3.0	3.4	4.5	5.0	5.4	2.1	771.4
3. Oil-exporting countries	1.7	2.7	19.9	34.9	47.3	57.1	50.6	31.2	12.2	1 835.3
4. Other countries <u>c/</u>	2.5	3.5	4.1	9.7	10.6	12.0	12.2	12.3	4.8	492.0

Source: IMF, Direction of Trade Statistics, 1982 (Yearbook) and 1979 (Yearbook); for 1982, Direction of Trade Statistics, April 1983.

a/ Including Australia and New Zealand as from 1975.

b/ In this case it comprises the countries included by the IMF in the "Western Hemisphere" classification.

c/ Includes other European countries, South Africa and the centrally planned economies; up to 1972 it also included Australia and New Zealand.

Despite the various distorting effects generated by the world recession from the beginning of this decade, in the last few years trade relations between Latin America and the United States have remained intense. For the region, the United States is clearly its main trade associate, since approximately a third of Latin American exports go to that market (from the standpoint of the United States they amount to somewhat more than 13% of its imports), while about a third of Latin American imports come from the United States.

Behind this apparent equilibrium between Latin America and the United States there are some important factors to be noted. First, there is a persistent and significant deficit against our region on the balance of trade between the two countries.

Secondly, in the Latin American exports to the United States there has been a gradual rise in the share of fuels, which is now nearing 50% of the total, to the detriment of primary products, which have dropped appreciably in relative terms during the 1970s, and of manufactures, which achieved the level of 22% of the total in 1978, to fall to only 18% in 1980 (see table 18). In contrast, around 75% of the exports of the United States to Latin America regularly consists of manufactures.

In other words, the traditional asymmetry in the structure of trade between Latin America and the United States has been intensifying in recent years, with the further fact that the share of the United States market in the exports of the region has been maintained almost exclusively through the growing sales of fuels coming from a few Latin American countries.

Hence in the coming years it will be necessary to activate and strengthen Latin American negotiations in the appropriate fora in order to overcome the present difficulties in the region's trade relations with the United States in the context of the accentuated protectionist trends observable in that country. Among the priority subjects should be the reduction and suppression of the tariff barriers (scaling and dispersion of customs tariffs) and non-tariff restrictions that are hampering the access of Latin American exports to the United States market; the need for the United States to participate and collaborate in the adoption of a set of measures to stabilize the international prices of primary products; and the expansion and flexibilization of that country's generalized system of preferences, above all before the forthcoming expiry, in 1985, of the existing system.

Among the existing instruments that hamper the entry of some imported products (especially manufactures) into the United States market, an important one to remember is the Trade Agreements Act of 1979, which gave the President of that nation discretionary powers to use the so-called saving clause, as one alternative, or the imposition of countervailing duties against the possible presence of export subsidies, as another alternative, depending on whether the exporting countries concerned have subscribed or not to the agreement on subsidies approved in the Tokyo Round of GATT. Additionally, although the promulgation of that Act helped to standardize and clarify the non-tariff protection instruments, its use was practically unrestricted and consolidated a procedure which has had negative effects on the Latin American countries.

Table 18
UNITED STATES: STRUCTURE OF TOTAL IMPORTS

(Percentages)

	World	OECD member countries	Developing countries	Latin America <u>a/</u>
<u>1970</u>				
Primary commodities	33.5	25.1	50.6	65.7
Fuels	7.7	4.1	18.3	21.4
Manufactures <u>b/</u>	58.8	70.8	31.1	12.9
<u>1972</u>				
Primary commodities	29.3	24.4	40.5	59.6
Fuels	8.6	4.4	20.8	20.7
Manufactures <u>b/</u>	62.1	71.2	38.7	19.7
<u>1975</u>				
Primary commodities	23.9	23.6	23.2	42.9
Fuels	27.2	9.6	52.9	35.4
Manufactures <u>b/</u>	48.9	66.5	23.9	21.7
<u>1978</u>				
Primary commodities	17.6	23.6	15.3	44.8
Fuels	28.6	8.5	53.3	33.2
Manufactures <u>b/</u>	53.8	67.9	31.4	22.0
<u>1979</u>				
Primary commodities	21.5	22.9	19.7	38.5
Fuels	29.8	8.3	53.7	42.1
Manufactures <u>b/</u>	48.7	68.8	26.6	19.4
<u>1980</u>				
Primary commodities	19.4	21.5	17.1	34.0
Fuels	33.4	9.7	57.3	48.3
Manufactures <u>b/</u>	47.2	68.8	25.6	17.7

Source: Organization for Economic Co-operation and Development (OECD), Foreign Trade Statistics, Series C, Trade by Commodities, various issues.

a/ Up to 1978 this included 24 countries; the 1979 and 1980 Standard International Trade Classification included 27 countries.

b/ Excluding SITC divisions 67 and 68, which were added to the group of primary commodities.

ii) Trade in primary products and manufactures. In the case of primary products the United States has had a marked influence on the drastic fall in their international prices during recent years, owing to the repercussions provoked by various restrictive elements in that country's trading and economic policy, and the acute and prolonged recession that had affected it. Although this fall in commodity prices has also had a negative impact on the American economy, which is a net exporter of agricultural products, it has been relieved, at least in part, by the policies of support to this sector which are applied in the United States. The Latin American countries, which have no such policies, have borne the brunt of the fall in world prices for these lines and have had to apply a very difficult and costly adjustment process.

In this connection, the adhesion of the United States to lines of action designed to mitigate excessive fluctuations in the prices determined in the changing international commodity markets is a matter of high priority in view of its importance in international trade in these categories. It would also be highly desirable to secure its support as soon as possible for the Integrated Programme on Commodities of UNCTAD. Furthermore, the entry of primary products into the United States market is adversely affected by other trade policy measures, especially those of a non-tariff nature, including the adoption of import quotas for some products, specifically sugar and meat.

In the case of sugar, it is worthy of note that Nicaragua has been affected by the adoption by the United States Government of a measure reducing the annual import quota for sugar from that Latin American country from 58 800 to 6 000 short tons as from the fiscal year 1984, beginning in October 1983. The Nicaraguan authorities have protested against this measure to the Organization of American States (OAS) and to GATT.

It is also worth repeating that Latin American exports to the United States are subject to tariff scaling, which discourages the local processing of the primary commodities produced in the region.

Commodity exports from Latin America to the United States (with the exception of fuels) have been steadily reducing their relative share in the total. Thus, between 1970 and 1980 this share fell by half -from 66% to 34% (see table 18)- and it may well have continued to descend in the last few years in face of the drastic fall in international commodity prices during that period.

The subject of the export of manufactures from Latin America to the United States must be envisaged as part of the necessary growth of exports to the industrialized centres. It should be remembered, as has been noted in other sections in this paper, that the last few years have witnessed an accentuation of the trends towards a "new protectionism". Thus, coinciding with the reductions in the average tariffs of the countries participating in the Tokyo Round, there was a proliferation and refining of non-tariff measures which disguise their aim of reducing the entry of imported merchandise by posing as administrative regulations, bilateral agreements restrictive economic policies, etc.

/The exports

The exports of Latin American manufactures to the United States have begun to encounter these obstacles in the last few years, when the dynamism of these exports has not been sufficient to continue increasing or even maintaining their share in the total, which reached a peak of 22% in 1978.

One difficulty in the export of manufactures to the United States relates to applications for the establishment of compensatory duties against certain exports. After the adoption of the Trade Agreements Act these applications increased, reaching a total of 98 cases in 1982 compared with an average of 29 cases in the five preceding years. Of these 98 cases, 32 involved Latin American products, and the goods affected included steel, textiles, leather goods, orange juice, etc.: all products of great importance to the region.

It must be reaffirmed that the export incentives and subsidies granted by Latin American countries do not always constitute unfair trade practices, and that the inquiries into alleged damage are in themselves measures for the discouragement of trade, irrespective of their outcome, being thus transformed into de facto measures of protection.

Details have been given elsewhere of the various restrictions encountered by the developing countries and particularly Latin America in their attempts to develop fully and effectively the trade possibilities of the generalized system of preferences (GSP) of the United States, so that it is unnecessary to repeat them here. At all events, it is essential that this system should be promptly renewed and made permanent, maintaining its generalized, non-reciprocal and non-discriminatory character, as in its original conception.

There are, moreover, various important and worth while Latin American proposals for improving the functioning of the United States GSP. These include the elimination of the graduation principle; the expansion of the coverage of products; the flexibilization of the procedures necessary for the inclusion of products considered of interest to the region; the extension of the concept of "cumulative origin" to all the economic integration systems among developing countries, and the elimination of the "competitive need" requirement, or at least the moderating of its restrictive criteria, and a substantial increase in value of the "minimal" clause.

iii) The Caribbean Basin Initiative. An event connected with the economic and trade policy of the United States towards Latin America has been the adoption by the United States Congress of a programme of aid to the countries of the Caribbean region, known as the Caribbean Basin Initiative, which originated in a proposal by the President. This programme underlines the United States' desire to establish a special relation with the subregion, which is currently affected by serious problems. A total of 28 countries and territories of the Caribbean Basin could potentially be included in the programme. It has been pointed out that the discretionary power of the United States to determine the eligibility of the beneficiaries according to their political orientation introduces potential discrimination for other than commercial and economic reasons.

/The Initiative

The Initiative follows three basic lines of action: trade integration through the lowering of tariff barriers; economic assistance; and incentives for United States investment in the Caribbean Basin. A central feature of the Initiative is the free entry without tariffs, for a period of 12 years, of products exported by the subregion to the United States. However, the efficacy of this measure may be diminished, among other factors, by the exclusion of certain products (for example, textiles and leather goods) from the tariff exemption and also by the limited period of its operation.

With regard to the fiscal allocation for emergency economic assistance, this was established at US\$ 350 million for the first year. Finally, to encourage United States investment in the Caribbean Basin, it is expected that there will be tax exemptions for American investors in this subregion, according to the amount of their investments.

iv) Financial relations. The United States surplus vis-à-vis Latin America on the balance-of-payments current account has persisted in the last few years, as can be seen from the figures for the United States (see table 19). In 1980 and 1981 the balance on current account rose markedly in that country's favour, coming close to US\$ 20 billion in 1981, only to fall in 1982 as a result of the deterioration in the economic situation of the region and the dramatic fall in its imports.

In addition, during the last few years, and particularly in 1981 and 1982, there was an increasing tendency for the financial flows to Latin America to consist of loans from private banks, with the consequent loss of relative weight of other resources which include some concessional element, such as government loans (see table 20).

Likewise, during the biennium 1981-1982 the flows representing direct United States private investment in Latin America became markedly negative (around US\$ 3 billion per year on average), a phenomenon which had not occurred during the whole of the period 1970-1980.

Finally, with most of the United States credit to Latin America coming from private banking sources, it is extremely unfavourable for the region to be faced with any economic policy that may contribute to the high interest rates which so adversely affect the current payment problems. Coupled with this, at the present time, are the great difficulties stemming from the contraction of private bank accounts and the reduction of Latin American exports to the North American market.

b) The European Communities

i) Background. The EEC Common Agricultural Policy. Since 1981, the year of the last analysis by the ECLA Secretariat of the economic relations between Latin America and the member countries of the European Economic Community (EEC),^{9/}

Table 19

UNITED STATES: INTERNATIONAL TRANSACTIONS WITH LATIN AMERICA AND THE CARIBBEAN

	1970	1972	1975	1976	1978	1979	1980	1981	1982
Exports <u>a/</u>	10 395	11 200	25 448	27 912	38 055	50 076	66 637	79 946	71 124
Of goods <u>b/</u>	6 494	7 241	17 108	16 871	22 033	28 555	38 845	42 804	33 164
Of services <u>c/</u>	3 901	3 959	8 340	11 041	16 022	21 521	27 792	37 142	37 960
Imports <u>a/</u>	-8 407	-9 859	-21 384	-23 205	-31 537	-42 684	-53 086	-58 738	-62 177
Of goods <u>b/</u>	-5 913	-7 068	-16 177	-17 208	-23 041	-30 535	-37 525	-39 099	-38 561
Of services <u>d/</u>	-2 494	-2 791	-5 207	-5 977	-8 496	-12 149	-15 561	-19 639	-23 616
Balance on current account	1 466	821	3 412	3 951	5 692	6 366	12 347	19 949	7 615

Source: United States Department of Trade, Survey of Current Business, several issues.

a/ Excludes military transactions and transfers under military co-operation agreements.

b/ Adjusted, excluding military goods.

c/ Comprises factor payments, royalty remittances, transfers under military sales contracts, government revenues, private earnings, travel, fares, transport, etc.

d/ Comprises, inter alia, factor payments, returns on investments in the United States and private liabilities.

Table 20

UNITED STATES: COMPOSITION OF GROSS FINANCIAL FLOWS TO LATIN AMERICA AND THE CARIBBEAN

(Millions of dollars and percentages)

	1970	1972	1975	1976	1978	1979	1980	1981	1982
<u>Percentage breakdown</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
1. Unilateral transfers (excluding military donations)	20.8	17.2	5.2	3.8	4.7	6.5	3.6	2.7	2.8
2. Government flows	20.2	15.2	6.6	2.6	2.5	2.0	1.5	1.1	7.4 ^{a/}
3. Net private flows, of which:	59.0	67.6	88.2	92.1	92.8	91.5	94.9	96.2	89.8
Direct investment	23.9	9.2	10.8	8.9	23.0	21.2	8.4	-0.1	-12.1
Bank operations	15.0	49.0	72.2	76.0	62.9	66.5	79.4	95.0	107.1
<u>Total (millions of dollars)</u>	<u>2 506.0</u>	<u>3 016.0</u>	<u>12 521.0</u>	<u>19 902.0</u>	<u>17 420.0</u>	<u>15 888.0</u>	<u>33 630.0</u>	<u>46 406.0</u>	<u>48 047.0</u>

Source: United States Department of Trade, Survey of Current Business, various issues.

a/ Includes net official reserves.

these relations have suffered the inevitable consequences of a period of crisis in which the effects of serious problems have become apparent in economic and political relations at world level. Furthermore, the EEC has been experiencing various difficulties in its economic functioning which do not solely derive from the world recession but have their origin in profound and longer-term causes.

Thus, in the last few years the economies of the EEC have not succeeded in recovering from the depressive situation they have been facing since 1980 as a result of the combined effects of the so-called "second oil shock" and the absence of an adequate process of structural readjustment to the new modes of production that were ever more clearly imposing themselves, or needing to be imposed, in the sphere of the central economies.

Consequently, the EEC has been experiencing prolonged economic stagnation, structural unemployment which currently exceeds the figure of 12 million workers for the total number of countries incorporated, and a number of serious difficulties in some specific sectors (iron and steel, chemicals, textiles and others). In face of this, the only aspect that can be considered promising is the undoubted success achieved in the fight against inflation (currently the annual average inflation rate for the EEC is below 0.8%), along with certain signs of tardy reactivation observed in recent months.

The factors referred to have tended to cause crises in the internal organization of the EEC itself, and this has been reflected, inter alia, in the deliberations and decisions on the best use to be made of the economic resources of the Community in view of the growing difficulties in procuring them.

As is well known, almost 70% of the total Community funds is committed to the financing of the Common Agricultural Policy (CAP), through the European Agricultural Guidance and Guarantee Fund (EAGGF), with its complex system of direct support for producers, protection against trade penetration by non-associated countries, and subsidies for exports in some important lines such as sugar, meat and dairy products.10/

Internal criticisms of the functioning of the Common Agricultural Policy have basically been aimed at the enormous weight that this has been acquiring in the Community budget, and have been advanced mainly by the United Kingdom and the Federal Republic of Germany, that is, by the countries that suffer most from the imbalance between disbursements and repayments in respect of Community activities in support of agriculture. These criticisms have been added to those traditionally put forward from outside the Community, especially by the countries most directly affected by the CAP (including the United States, Canada, Australia and the Latin American countries).

Despite the enormous quantity of resources allocated to the CAP (close to US\$ 14 billion in 1983), in practice the budget for that year was insufficient to meet all the obligations that have been arising -although there has not yet been a halt in the payments to the economic agents concerned- and hence only a marked increase in available financial resources, difficult to achieve in the present circumstances of the economies of the member countries, can prevent a possible paralyzation of the system in 1984.

/This situation

This situation has been brought about, among other factors, by the combined effect of the depression of intra-Community and international demand for agricultural and livestock products and the persistence of high support prices within the EEC, which have caused the enormous existing surpluses (of wheat, sugar, meat, wine, and dairy products in particular), far from diminishing, to continue to increase in the last few years.

As regards the options that have been suggested for surmounting this critical phase of European integration, it should be noted that they differ greatly among themselves and that the type of solution finally adopted may affect the impact, for better or worse, on the future development of the economic relations between the EEC and Latin America.

The first option, supported by France and, up to a point, by Italy, Ireland and Denmark, is to continue the policy in force and raise the budgetary contributions required, probably with some adjustments that take account of the demands of all the member countries, to levels compatible with the expenditure of the CAP as at present formulated.

At the other extreme are the countries which, dissatisfied with the functioning of the system, propose its gradual dismantling so as to return to a freer agricultural market. This criterion, if applied coherently to international trade, could favour the trade flows from Latin America, which are currently subjected to sharp discrimination.

It is the intermediate options, however, that seem more likely to be applied in the course of 1984. These are aimed at the maintenance of the present policy, while mitigating its effects on the availability of resources through a reduction in the scope of intervention and/or the creation of new mechanisms for procuring resources. In this context, and in order to maintain the generation of funds in connection with the agricultural sector itself, the possibility has been mentioned of applying new taxes, especially a tax on the import of fats. This last is very strongly opposed by the United States and its adoption would be very detrimental to the Latin American countries that export oilseeds, cakes, flours and oils (Argentina, Brazil and Paraguay, mainly).

In brief, the functioning of the EEC integration system in the coming years will be largely conditioned by the evolution of its Common Agricultural Policy, which since the creation of the Community has never been faced with problems as serious as those confronting it now.

ii) The recent evolution of the economic relations between the EEC and Latin America. On several occasions emphasis has been placed on the negative features in the trade relations between the EEC and Latin America,^{11/} whether in relation to the loss of regional weight in the imports of the EEC, the exclusion of most of the Latin American countries from the trade agreements concluded with a large number of developing countries, or the harmful effects on Latin American /exports of

exports of certain aspects of the EEC trade policy (mainly because of the Common Agricultural Policy, but also on account of specific restrictive measures, including those affecting iron and steel and textiles, mentioned above).

The share of Latin American exports to the EEC in the latter's total imports, which had fallen from around 7% in 1957 to around 4% in 1970, continued to decline during the past ten years to reach levels close to 3% at the beginning of the 1980s (see table 21). Viewed from a Latin American standpoint, whereas in 1970 26% of Latin American exports went to the EEC, in 1981 the comparable proportion was only 17.5%.

This situation is aggravated by the peculiar structure of the Latin American exports to the EEC. In recent years less than one-eighth of these exports represented manufactured products (see table 22), the comparable proportion for the total of Latin American exports being approximately 25%.

At the same time the share of the EEC in the total imports of Latin America has dropped from 23.8% in 1970 to 14.8% in 1981. Nonetheless, since close to 85% of the EEC exports to Latin America corresponds to the manufacturing sector, there is clearly a striking asymmetry in the trade in goods between the two areas.

Apart from the harmful effect of the protectionist measures applied with ever-increasing severity by the EEC, it should be recalled that this marked deterioration in the relative position of Latin America has been influenced by the scant presence of the region in the European market for manufactures and fuels, that is, the two sectors that have shown most dynamism during recent decades in world-level development.

Leaving aside the very special case of fuels, it is noteworthy that this has occurred despite the vigorous industrial growth observed in most of the Latin American countries during the same period, which has manifested itself in an increase in the importance of manufactures in Latin American exports to other areas, especially in intra-regional trade.

This, then, must be considered the single most important fact in the explanation of the progressive worsening of the trade relations between Latin America and the EEC, and the solution of the problems relating to trade in manufactures should therefore have very high priority in the dialogue and negotiations between the Community and Latin America.

The obstacles are numerous and it would be futile to try to conceal their presence. For example, the Latin American manufacturing sectors that are most competitive are precisely those in which the structural crisis besetting European industry is most acute, and in which, as a result, the protectionist pressures are stronger on the part of industrial entrepreneurs, labour unions and local authorities.

/Table 21

Table 21

EEC: TOTAL IMPORTS, BY ORIGIN, 1970-1981

(Billions of dollars)

	1970	1972	1975	1978	1981	Percentage breakdown		
						1970	1978	1981
<u>Developed countries</u>	<u>86.8</u>	<u>117.4</u>	<u>212.0</u>	<u>338.5</u>	<u>461.5</u>	<u>79.4</u>	<u>77.6</u>	<u>74.1</u>
EEC (intra-zonal trade)	56.2	80.1	146.0	236.9	310.3	51.4	54.3	49.8
United States	11.1	11.7	22.4	30.6	48.6	10.2	7.0	7.8
Canada	2.6	2.5	4.0	4.1	7.5	2.4	0.9	1.2
Japan	1.9	3.3	5.7	11.1	18.9	1.7	2.5	3.0
<u>Developing countries</u>	<u>18.4</u>	<u>23.5</u>	<u>61.2</u>	<u>80.4</u>	<u>131.6</u>	<u>16.8</u>	<u>18.4</u>	<u>21.1</u>
Latin America	4.6	4.7	8.2	12.6	19.3	4.2	2.9	3.1
Africa	7.3	8.0	16.3	20.0	30.0	6.7	4.6	4.8
Middle East	4.0	7.1	29.0	33.9	61.7	3.6	7.8	9.9
South Asia	2.4	3.4	7.1	13.3	20.0	2.2	3.1	3.2
<u>OPEC</u>	<u>7.7</u>	<u>11.3</u>	<u>38.7</u>	<u>45.2</u>	<u>79.8</u>	<u>7.0</u>	<u>10.4</u>	<u>12.8</u>
Others <u>a/</u>	4.1	5.4	11.3	17.0	29.5	3.8	3.9	4.7
<u>World total</u>	<u>109.4</u>	<u>146.4</u>	<u>284.4</u>	<u>435.8</u>	<u>622.6</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1983.

a/ Represents the difference between the world total and the values corresponding to developed market economy countries and developing countries: i.e., it mainly represents the countries with centrally planned economies.

Table 22
EEC: STRUCTURE OF TOTAL IMPORTS

(Percentages)

	World	OECD member countries	Developing countries	Latin America a/
<u>1970</u>				
Primary commodities	38.9	33.9	52.1	89.4
Fuels	10.7	3.4	39.7	5.8
Manufactures <u>b/</u>	50.4	62.7	8.2	4.8
<u>1972</u>				
Primary commodities	35.0	31.8	42.3	88.2
Fuels	11.7	6.2	46.1	4.6
Manufactures <u>b/</u>	53.3	62.0	11.6	7.2
<u>1975</u>				
Primary commodities	30.8	31.2	27.7	79.3
Fuels	19.5	6.2	60.6	10.0
Manufactures <u>b/</u>	49.7	62.6	11.7	10.7
<u>1977</u>				
Primary commodities	29.7	28.9	31.1	81.6
Fuels	18.3	6.1	54.3	6.2
Manufactures <u>b/</u>	52.0	65.0	14.6	12.2
<u>1980</u>				
Primary commodities	26.2	27.2	23.8	70.6
Fuels	22.5	9.5	60.9	17.9
Manufactures <u>b/</u>	51.3	63.3	15.2	11.5

Source: Organization for Economic Co-operation and Development (OECD), Foreign Trade Statistics, Series C, Trade by Commodities, various issues.

a/ Includes 24 countries.

b/ Excluding divisions 67 and 68 of the Standard International Trade Classification (SITC), which were added to the group of primary commodities.

This is so, for example, in the case of the iron and steel industry, where, as already observed, the EEC has imposed drastic cuts in its domestic production; textiles, for which agreements on the "voluntary limitation" of exports have been signed with various Latin American countries; transport equipment, where the EEC market has been traditionally closed to extra-regional imports; and the electronic and agricultural industries, these last being affected not only by tariff and non-tariff barriers, but also by the indirect effects of the Common Agricultural Policy.

If considerable improvements cannot be obtained in Latin American exports to the EEC through the Community's Generalized System of Preferences (GSP), then it becomes a matter of urgency to amplify and strengthen the Europe-Latin American dialogue, whether through the existing structures or the creation of new modalities, in order to facilitate the access to other European markets of a larger quantity of manufactures of Latin American origin.

Paradoxically, the very difficulties of external indebtedness currently besetting the region, with their potential risk for the functioning of the international monetary and financial system as a whole, represent a major incentive for the dynamization of trade in manufactures between Latin America and the Community.

It is evident that a greater degree of trade openness must form part of the strategy of the industrialized countries if there is to be any guarantee of normal servicing of the credits all too liberally granted in the period 1975-1981. An improvement in the external accounts of the Latin American countries is therefore essential not only for the countries faced with external payments problems, but also for the creditor countries and the international financing agencies, public and private.

In many cases it is not just a matter of undertaking multilateral negotiations of a traditional type. At the same time partial agreements must be sought, which should function through economic agents who are fully identified and well established.

In the sector of agricultural products, the need to balance the external accounts of the Latin American countries coincides with the internal crisis of the Common Agricultural Policy of the EEC, thus opening the way for the design of a different scheme in which new areas of co-operation might find a place.

Similarly, there are industrial sectors which in relatively recent times have attracted strong flows of direct investment from Europe.^{12/} For these, in view of the present contraction of domestic market in most of the Latin American economies, a trade expansion towards the European markets themselves or even to third countries might constitute, under certain assumptions of quality in the goods and efficiency in the productive structures, the only way to ensure the economic viability of the said investments.

/This last

This last trend may be regarded, up to a point, as a natural evolution of the economic relations between the EEC and Latin America. Indeed, it is already taking place in some cases, as illustrated by the exports of the Brazilian motor-vehicle industry to Western Europe, Africa and the Middle East.

In other cases, as for example the Central American and Caribbean countries, the considerations that could form the bases for a policy of rapprochement and co-operation, without prejudice to renewed interest in mechanisms of official development aid, are of a non-economic nature.

In this connection it is of interest to mention the marked increase in the assistance given by the EEC to Central America in the financial, technical, nutritional and emergency fields, which in 1982 exceeded 110 million European Currency Units.^{13/} These sums, which are additional to the bilateral aid granted by each member country of the EEC, are already considerable, but they may be increased in the future if Europe wishes to take an active part in the economic, social and political recovery of areas affected by difficulties of every kind, while simultaneously giving aid to other less developed countries of the region.

iii) Existing mechanisms of co-operation and consultation between the EEC and Latin American and possible lines of future action. In 1971 a negotiating mechanism (known as the Euro-Latin American Dialogue) was set up to hold half-yearly meetings between the Latin American ambassadors to the EEC in Brussels and members of the committee of permanent representatives to the European Communities and the Commission. This formal mechanism was suspended in 1980 and the informal meetings held with a view to restoring it suffered a serious setback as a result of the South Atlantic crisis in 1982, in view of the coercive economic measures adopted jointly by the Community countries against the Argentine Republic.

In April 1983, however, the Latin American member countries of SELA met in Buenos Aires and established the bases for a possible resumption of the Europe-Latin American dialogue.

Although the real prospects of a renewal of the suspended contacts cannot yet be fully assessed, especially as regards the real content of the dialogue, it must be emphasized that the re-establishment and regular functioning of a mechanism of this type is a necessary, though not in itself sufficient, condition for effective action against the multiple obstacles described. At all events, only a qualitative change in the political will to negotiate, especially on the part of the EEC, can enable progress to be made in the solution of the existing problems.

From a subregional standpoint, in December 1983 an agreement on co-operation and consultation was concluded between the member countries and the Board of the Cartagena Agreement on the one hand, and the EEC on the other, which includes the granting of most-favoured-nation treatment, this being an indication of the Community's interest in establishing agreements with different institutions responsible for the Latin American subregional economic integration processes.

/There is,

There is, in addition, a series of trade agreements signed by the Community with Argentina, Brazil, Mexico and Uruguay individually, which are of a non-preferential nature and of limited scope. These agreements envisage the holding of annual meetings of mixed commissions, although this has not always been fulfilled, at least with the frequency intended.

Further, within the framework of the Multifibres Agreement, the EEC has negotiated agreements for the voluntary restriction of textile exports with Brazil, Colombia, Guatemala, Haiti, Mexico, Peru and Uruguay.

A special case in the economic relations between Latin America and the EEC is the marketing of the iron ore exported by Brazil. There are annual agreements on the purchase of this important product by the member countries of the EEC, and these agreements have received a major impulse with the decision adopted by the European Coal and Steel Community to grant a US\$ 600 million loan to the Brazilian public company "Companhia Vale do Rio Doce" for the execution of the Carajás mining project, the production of which, from 1985, will permit regular exports of iron ore from Brazil.

To complete this picture of the co-operation and consultation mechanisms, it remains to mention the closest association of all, maintained by the EEC with the Caribbean countries participating in the Lomé Convention. These countries, as is known, enjoy special preferences as regards access to the EEC market for their products (with some exceptions) and benefit from the System of Compensatory Finance for Loss of Export Earnings (STABEX), as well as from special forms of co-operation in particular sectors. It should be noted, however, that the rest of the Latin American countries are excluded from this preferential scheme.

As can be seen, dialogue and co-operation between the EEC and Latin America have sufficient institutional bases to be able to develop fully on the official plane. Without prejudice to what can be achieved at the bilateral level, and also through direct contacts between public and private economic agents, however, there is an undeniable need for increased opportunities of consultation and negotiation. The recent decision on the renewal of the Euro-Latin American Dialogue is a fundamental step in this direction, but it is imperative for this to be accompanied by an intense effort on the part of the Community and Latin America to make this dialogue fruitful.

iv) Suggestions for action. The world recession has affected the EEC as well as Latin America, although in different ways.

The EEC is probably faced with a crisis of transformation, in which the "aging" sectors are finding themselves obliged to make way for others which are more dynamic and able to constitute the motive forces of what has come to be termed the "new growth" of that area.

/In Latin

In Latin America, in contrast, the crisis has brought to the fore the fragility of the structures that arose from the great transformations of the 1960s and 1970s. The socio-political tensions are becoming more acute every day, while the viability of different economic, political and social schemes is placed in jeopardy.

This aspect constitutes a first and highly important point of contact between Latin America and the EEC, and calls for profound reflection on the part of the governments and other social actors of both regions, through periodic meetings held, as far as possible, within the framework of the Euro-Latin American Dialogue.

Among the more specific elements that can serve as a basis for improving the economic links between Latin America and the EEC the following may be mentioned:

a) The Latin American countries should maintain and vitalize their bargaining power so as to achieve radical modifications in the discriminatory trade policies of the Community, especially in relation to protectionism and the Common Agricultural Policy. In this direction, the adoption of a programme for the gradual elimination of the negative effects of the Common Agricultural Policy should have high priority in the negotiations with the EEC.

b) Despite the difficulties that for various reasons may exist in the trade relations between Latin America and the EEC, everything suggests that the region constitutes, because of its economic and productive capacity and potential, a favourable field for a series of more radical and intensive measures of reciprocal co-operation on the part of the Community. Among the possible areas of co-operation, special attention might be given to those relating to finance, technology and the development of specific productive sectors.

c) As regards finance, it is not only a question of improving the amounts and conditions of EEC loans to Latin America: it is also vitally important for a greater proportion of the direct investments made abroad by the Community to be directed to the Latin American countries, especially in order to establish joint investments with national enterprises of the region.

d) The EEC can play a major role in the technological development of Latin America by supporting programmes of professional and technical training in the region and contributing to transfers of technology to it. A significant part might be played in this regard by the small and medium-sized European firms, which frequently employ technologies more in line with the needs of developing countries.

e) Finally, the development of certain specific productive activities could be a matter of clear reciprocal interest to Latin America and the EEC. For example, the European countries are very short of mineral products, which could be supplied by Latin America, always provided that the region could satisfactorily expand its production by including an increasing amount of local processing, which would raise the proportion of value-added retainable by the Latin American countries. Similar possibilities of co-operation can be explored in other productive activities, the development of Latin American energy and agroindustry being other fields of mutual interest for the EEC and the region.

c) European countries members of the Council for Mutual Economic Assistance (CMEA)*/

i) Evolution and structure of trade between Latin America and CMEA. At the beginning of the 1980s, Latin America's trade relations with the socialist countries of Eastern Europe showed signs of proceeding in more favourable conditions than in earlier years, although former problems persisted and certain characteristics which have long marked its evolution were maintained. In 1981, the value of exports to Eastern Europe from the 23 countries of the Latin American area in the aggregate (excluding Cuba, in view of its membership of CMEA), amounted to about US\$ 5.3 billion, a figure which represented 5.4% of the region's total exports (see table 23). In 1981 exports showed a 45% increase over the preceding year's, while in 1980 they had exceeded those of 1979 by 78%. What happened was that at the start of the new decade special circumstances occurring in the international market stimulated demand for certain products, and among the Latin American countries there were primarily two exporters of the products in question -Argentina and Brazil- which were in a position to take advantage of the world conjuncture and the course of events.

The special circumstances referred to arose when the United States Government decided to impose certain restrictions on its sales of grain (particularly wheat, maize and soya) to the Soviet Union, whose import requirements had considerably increased as the result of poor harvests. The restrictions, applied as from January 1980, implied a partial shift of the purchases that the Soviet Union had been accustomed to make in the United States market to the markets of the above-mentioned Latin American countries. But precisely by reason of its circumstantial character, this movement gradually lost its dynamism as from 1981, partly because the restrictions began to be lifted and also because the import requirements of the Eastern European members of CMEA decreased. Thus, in 1982 exports from Argentina and Brazil to that region appreciably declined, and with them those of Latin America as a whole. It should be noted, moreover, that although the figures concerned are very small compared with those for the two countries mentioned, the drop in the value of exports in 1982 affected several countries. In that year, the value of exports from the whole of Latin America to Eastern Europe was about US\$ 3.3 billion (3.6% of total exports).

However, this trend in Latin America's export trade with the European CMEA countries made no perceptible difference to the characteristic features which it had presented since the beginning of the 1960s. One of these features is the high geographical concentration of the markets of origin of exports; in 1976, Argentina and Brazil together accounted for 76.1% of the exports in question, while Colombia and Peru contributed 18.7%; in 1980, Argentina and Brazil supplied 85.0%, Colombia and Peru being responsible for 6.9%; and lastly, in 1982, the

*/ The terms countries of Eastern Europe members of CMEA or European CMEA countries will be used with reference to the group of countries formed by Bulgaria, Czechoslovakia, Hungary, Poland, the German Democratic Republic, Romania and the Soviet Union.

Table 23

LATIN AMERICA: EXPORTS FOB TO EASTERN EUROPE

(Millions of dollars)

	1976	1977	1978	1979	1980	1981	1982 ^{a/}
Argentina	289.8	454.5	527.1	602.7	1 793.3	3 102.9	1 632.8
Barbados	...	...	0.1	0.2	...	...	...
Bolivia	...	...	...	...	...	...	...
Brazil	896.0	870.0	729.0	976.0	1 306.0	1 698.0	1 163.0
Colombia	71.2	90.7	92.5	89.9	143.4	107.5	69.2
Costa Rica	8.0	35.9	17.1	9.7	...	17.4	13.3
Chile	44.1	35.3	8.4	17.5	52.0	40.7	27.7
Ecuador	45.9	44.8	40.7	62.1	31.4	25.7	19.5
El Salvador	1.2	...	2.7	0.6	...	2.4	2.0
Guatemala	3.5	11.5	5.3	2.2	0.9	5.1	4.3
Guyana	...	1.6	3.5	5.4	7.2	7.2	6.2
Honduras	2.3	...	...	1.4	...	...	...
Haiti	...	...	...	...	...	...	...
Jamaica	5.3	1.9	15.9	1.4	49.9	49.9	42.1
Mexico	23.0	12.0	20.0	54.0	39.0	35.0	28.0
Nicaragua	4.8	6.3	1.1	...	...	...	...
Panama	0.1	0.1	...	0.1	0.1	...	...
Paraguay	...	...	...	3.6	0.1	0.9	...
Peru	141.5	164.0	115.5	184.0	109.3	71.1	67.5
Dominican Republic	...	...	...	...	3.4	14.1	68.5
Trinidad and Tobago	...	...	...	...	...	...	...
Uruguay	17.9	38.3	44.8	30.4	80.0	93.0	101.0
Venezuela	3.0	4.0	6.0	4.0	30.0	22.0	19.0
<u>Total</u>	<u>1 558.6</u>	<u>1 770.7</u>	<u>1 639.7</u>	<u>2 045.2</u>	<u>3 646.0</u>	<u>5 292.9</u>	<u>3 264.4</u>
Percentage of total exports	3.7	3.6	3.1	2.9	3.9	5.4	3.6

Source: IMF, Direction of Trade Statistics (several years).

a/ Figures are provisional and some partially estimated in the above-mentioned publication.

share of Argentina and Brazil was 85.6%, whereas that of Colombia and Peru was reduced to only 4.2%. During the three-year period 1980-1982, on the one hand the relative participation and absolute value of exports from Colombia and Peru decreased, while on the other hand, Uruguay succeeded in substantially increasing its exports and the Dominican Republic emerged as a new exporter to Eastern Europe.

In addition to the high degree of geographical concentration, another characteristic of Latin American exports to Eastern Europe is the instability apparent in those of some countries of the region. A closer look at table 23 will detect the irregularity exhibited by the export values of such countries as Costa Rica, Chile, Mexico and Venezuela, among others. Probably in each country and at each point of time factors determining this instability come to the fore, while the trade flows concerned are also influenced by the policies and decisions adopted in the importer countries; all of which calls for detailed examination. The intention here is merely to point out one of the characteristics of trade between some Latin American countries and European members of CMEA, and to add that the instability observed reflects the non-existence of clearly-defined and adequately implemented policies to promote the expansion of reciprocal trade.

There are different ways of looking at the course followed by Latin America's exports to Eastern Europe. One approach may be based on the situation existing at a given earlier period. In 1970, for example, total exports from the 23 countries of the region to Eastern Europe amounted to US\$ 370 million; ten years later the corresponding figure had risen to 3 646 million. So significant a growth was probably achieved because the base from which it started was very small. The question that arises is whether the conditions which made this increase possible will be maintained.

Among the factors that will have to be taken into account in this connection are the region's imports from the European members of CMEA. According to the figures presented in table 24, the growth rate of Latin American imports from Eastern Europe has been very low, and except for those of Brazil, they vary widely from one year to the next. The substantial trade imbalance resulting from this lesser growth of imports in comparison with that of exports has generally been considered a factor that hampers or limits the expansion of trade on more stable and permanent bases, above all in the opinion of experts in the Eastern European countries.14/

ii) Trade between Latin America and the European countries members of CMEA: problems and prospects. The development of bilateral trade relations between the Latin American countries and the European members of CMEA during the last three decades has displayed certain special characteristics which, up to a point, are due to the fact that the countries concerned have different economic and social systems, but which also reflect the influence of factors connected with the international political situation. The countries of the two regions, in order to expand their reciprocal trade relations and advance towards agreements which, in addition to trade questions, include economic co-operation projects and programmes,

Table 24

LATIN AMERICA: IMPORTS CIF FROM EASTERN EUROPE

(Millions of dollars)

	1976	1977	1978	1979	1980	1981	1982 ^{a/}
Argentina	82.6	82.9	119.3	120.9	94.6	125.1	84.7
Barbados	0.6	0.8	0.6	1.0	2.5	2.9	2.0
Bolivia	...	...	...	...	...	...	...
Brazil	268.0	277.0	227.0	285.0	300.0	288.0	540.0
Colombia	24.6	35.9	40.4	49.2	117.1	82.1	69.1
Costa Rica	5.0	5.1	5.3	6.2	7.3	2.3	1.6
Chile	5.2	3.3	...	...	2.3	7.5	7.2
Ecuador	7.9	11.9	23.9	39.1	25.2	51.6	39.5
El Salvador	0.6	1.0	1.1	1.0	0.4	0.5	0.5
Guatemala	2.4	7.8	3.2	4.4	4.1	4.2	3.5
Guyana	5.3	2.5	6.0	9.4	13.0	13.0	11.0
Honduras	...	...	2.5	2.5	3.9	3.9	3.3
Haiti	1.6	2.2	2.3	1.7	2.0	2.0	1.7
Jamaica	2.3	1.4	1.0	1.2	2.2	1.5	1.2
Mexico	44.0	20.0	29.0	46.0	74.0	75.0	40.0
Nicaragua	2.3	2.3	3.2	0.4	...	...	...
Panama	2.4	2.0	4.3	3.6	5.0	3.9	1.7
Paraguay	...	...	...	...	...	0.6	0.9
Peru	24.3	20.6	24.3	29.8	36.8	15.4	13.1
Dominican Republic	0.3	0.6	0.9	0.8	1.4	1.6	0.2
Trinidad and Tobago	1.5	2.2	1.8	2.5	2.8	2.5	3.2
Uruguay	10.1	20.1	9.1	17.4	29.6	16.3	7.7
Venezuela	7.0	10.0	15.0	19.0	25.0	24.0	24.0
<u>Total</u>	<u>498.6</u>	<u>509.6</u>	<u>520.2</u>	<u>641.1</u>	<u>749.2</u>	<u>723.9</u>	<u>856.1</u>
Percentage of total imports	1.1	1.0	0.9	0.9	0.9	0.7	1.0

Source: IMF, Direction of Trade Statistics (various years).

a/ Figures are provisional and some partially estimated in the above-mentioned publication.

have had to overcome obstacles and problems widely differing in their nature. Appreciable progress has undoubtedly been made in this direction, and a vast field of possibilities still remains open for the expansion of reciprocal economic relations.

With this latter end in view, it may be useful to summarize briefly a few of the main obstacles to trade with the member countries of CMEA.

One of these problems is the want of reciprocal information, both general and specific. There is a lack of adequate knowledge of the basic elements of the counterpart country's external economic policy, of its institutional organization, and of the spheres and limits of authority or jurisdiction of each type of institution. Nor is enough known of the trade practices and techniques of the foreign trade organizations of the countries of Eastern Europe, and the experience of Latin American commercial firms -private and public- with those organizations has not been sufficiently assimilated or disseminated. All this helps to account for the wide fluctuations in trade from one year to the next.

Furthermore, external trade infrastructure (commercial attachés or departments in Embassies or Consulates and representatives or agencies of leading foreign trade enterprises) is insufficiently developed, a state of affairs which makes it difficult not only to acquire better knowledge of one another, but also to take steps to expand and diversify trade. As far as most Latin American countries are concerned, the weak development of trade infrastructure is related with the composition of their exports (almost entirely primary or slightly processed products) and likewise with the smallness of their volume of external sales. Similar problems exist on the Eastern European countries' side, although it must be recognized that their system of trade representation in the Latin American countries is more comprehensive than that of the latter in Eastern Europe.

The low degree of development of direct contacts between economic agents (foreign trade organizations and State enterprises in the countries of Eastern Europe, and public and private Latin American enterprises) has been one of the main factors limiting CMEA exports of machinery and equipment on the one hand, and of Latin American manufactures on the other. The establishment of a mechanism for promotion, information and publicity, the submission of references and samples to importers, the holding of fairs, shows and exhibitions and, in short, the various means of strengthening the organization of trade between countries in the two regions have hitherto been the object of too little attention.

Lastly, the geographical situation of the parties means that maritime transport is an important factor in reciprocal trade. Certain bilateral shipping agreements do exist (between Brazil and the Soviet Union and Poland; between the German Democratic Republic and Argentina, Brazil and Uruguay), but the irregularity of a few shipping lines' service to most Latin American countries, consequent upon the small volume of trade, creates problems in respect of the dates of both reception and delivery of merchandise, thus raising storage costs, producing delays in the clearance of payments due on presentation of ship's papers, etc.

/Transport problems

Transport problems are more serious for the Latin American countries that have no merchant navy of their own, since they are obliged to resort to the services of the regular shipping lines subject to the North and South Atlantic Lines Conferences. This irregularity of maritime transport in trade with Eastern Europe is greatest in the cases of Mexico and the Central American countries.

As with the United States and EEC, Latin America should organize a smoother flow of dialogue with the member countries of CMEA in the light of the need to diversify their economic relations and significantly increase the volume of their exports of manufactures.

d) Co-operation between developing countries

i) Trends in trade. During the 1970s the true potential of the economic linkages among developing countries came to light. The value of reciprocal trade, which was US\$ 11 billion in 1970, rapidly increased, climbing to US\$ 50 billion in 1975 and soaring to over 143 billion in 1981. In terms of total Third World exports, this trade raised its share from 20% in 1970 to 26% in 1981. Concomitantly, the relative importance of these same developing countries' market is even greater for their exports of manufactures, primarily in consequence of what is happening in the different intra-regional integration schemes, whose trade is taken into account in the foregoing total figures.

As regards trade between Latin America and the other countries of the South, it may be noted that in 1970 Latin American exports to the other developing countries in the aggregate amounted to not more than 2% of the region's total exports. But owing to its incipient character, this trade went through a period of rapid expansion, and in 1981 came to represent 6% of the region's total exports, corresponding to a sum of US\$ 7 billion. Its participation in total exports of manufactures, although increasing in recent years, in 1981 was still a little below 22% (see table 25).

Furthermore, in its trade with the rest of the developing world Latin America shows a deficit. In 1981, the negative balance amounted to about US\$ 9 billion, a value equivalent to 72% of Latin America's fuel imports, which are the item essentially accounting for the deficit. There was also a deficit of US\$ 1 160 million in trade in manufactures, as against Latin American imports to a value of US\$ 2 660 million. Only under the head of food and agricultural raw materials did Latin America record a surplus of any considerable size, which, in 1981, reached US\$ 2.7 billion (see tables 26 and 27).

All this seems to suggest that the future growth potential of trade between Latin America and the other developing countries is high. This impression is strengthened by the circumstance that Latin American exports to the countries in question still represent very low although increasing percentages. For example, in 1981 the proportion in question was not as much as 2%. In contrast, Latin America's market is of comparatively greater importance for the exports of the other developing countries (of which it absorbs about 4%), mainly because of the region's substantial imports of fuels from non-Latin American countries of the South.

Table 25
DEVELOPING COUNTRIES OF AMERICA^{a/}: TOTAL EXPORTS AND EXPORTS TO OTHER
DEVELOPING COUNTRIES, BY MAJOR CATEGORIES OF GOODS

Group of products	Year	Total exports to the world (millions of dollars FOB)	Exports to other developing countries (millions of dollars FOB)	Exports to other developing countries as a percentage of total exports (percentages)
Total (I + II) ^{b/}	1970	17 510	324	1.9
	1975	46 486	1 889	4.1
	1981	117 049	7 045	6.0
1. Food and agricultural raw materials	1970	8 186	219	2.7
	1975	18 408	1 362	7.4
	1981	33 813	3 150	9.3
2. Mineral and non-ferrous metals	1970	3 091	6	0.2
	1975	4 576	42	0.9
	1981	8 567	465	5.4
3. Fuels	1970	4 323	53	1.2
	1975	16 928	215	1.3
	1981	54 393	1 932	3.6
I. Total primary products (1 + 2 + 3)	1970	15 600	278	1.8
	1975	39 912	1 619	4.1
	1981	96 773	5 547	5.7
II. Total manufactures	1970	1 855	46	2.5
	1975	6 313	258	4.1
	1981	19 312	1 495	7.7

Source: United Nations, Monthly Bulletin of Statistics, May 1982 and May 1983.

^{a/} Includes countries members of ALADI and of the Central American Common Market, and the Bahamas, Barbados, Bermuda, Cuba, Dominican Republic, French Guiana, Greenland, Guadalupe, Guyana, Haiti, Jamaica and the Netherland Antilles.

^{b/} The differences between the total and the sum of the partial figures are due to the exclusion of unclassified goods.

Table 26
DEVELOPING COUNTRIES OF AMERICA^{a/}: TRADE WITH
OTHER DEVELOPING COUNTRIES

(Millions of dollars)

	Total imports from developing countries (excluding those of America) (1)	Exports from developing countries of America to other developing countries (2)	(2)/(1) (percent- age) (3)	Total exports from developing countries (excluding those of America) (4)	Imports of developing countries of America from other developing countries (5)	(5)/(4) (percent- age) (6)
1970	38 722	324	0.8	37 434	649	1.7
1975	142 536	1 889	1.3	162 997	8 368	5.1
1981	371 174	7 045	1.9	427 408	15 929	3.7

Source: United Nations, Monthly Bulletin of Statistics, May 1982 and May 1983.

a/ Includes countries members of ALADI and of the Central American Common Market, and the Bahamas, Barbados, Bermuda, Cuba, Dominican Republic, French Guiana, Greenland, Guadalupe, Guyana, Haiti, Jamaica and the Netherlands Antilles.

Table 27
DEVELOPING COUNTRIES OF AMERICA^{a/}: TOTAL IMPORTS AND IMPORTS FROM
OTHER DEVELOPING COUNTRIES, BY MAJOR CATEGORIES OF GOODS

Group of products	Year	Total imports from the world (millions of dollars FOB)	Imports from other developing countries (millions of dollars FOB)	Imports from other developing countries as a percentage of total imports (percentages)
Total (I + II)	1970	18 616	649	3.5
	1975	58 175	8 368	14.3
	1981	128 376	15 929	12.4
1. Food and agricultural raw materials	1970	2 606	75	2.9
	1975	6 898	177	2.6
	1981	15 517	445	2.9
2. Minerals and non-ferrous metals	1970	552	20	3.6
	1975	1 364	104	7.6
	1981	2 258	103	4.6
3. Fuels	1970	2 175	439	20.2
	1975	13 449	7 716	57.4
	1980	28 939	12 514	43.2
I. Total primary products (1 + 2 + 3)	1970	5 333	534	10.0
	1975	21 711	7 997	36.8
	1981	46 714	13 062	28.0
II. Total manufactures	1970	12 867	114	0.9
	1975	35 281	365	1.0
	1981	79 706	2 657	3.3

Source: United Nations, Monthly Bulletin of Statistics, May 1982 and May 1983.

^{a/} Includes countries members of ALADI and of the Central American Common Market, and the Bahamas, Barbados, Bermudas, Dominican Republic, French Guiana, Greenland, Guadalupe, Guyana, Haiti, Jamaica and the Netherlands Antilles.

/It is

It is of interest to recognize that there are extremely important factors which militate against the possibilities of expanding trade between Latin America and the rest of the Third World. They include problems relating to limited exportable supplies, financing, transport, communications, lack of tariff and non-tariff preferences, South-South trade linkages that are weak in comparison with the deep-rooted relations existing between the countries of the South and the industrialized centres, and scarcity of reliable and timely information. An essential requisite will be the progressive removal of these obstacles to the expansion and invigoration of interregional trade.

ii) Other aspects of South-South co-operation. It is natural that economic co-operation between developing countries should have a substantial trade component. Trade co-operation has always formed a part of the Southern countries' efforts to tighten their linkages and step up joint action. The first Conference on Co-operation between Developing Countries, held in 1976 in Mexico City, emphasized the need to prepare studies on this subject, and particularly on what has been called a Global System of Trade Preferences. At such international meetings as the United Nations Conference on Technical Co-operation among Developing Countries (Buenos Aires, 1978), the IV and V Ministerial Meetings of the Group of 77 (Arusha, 1979 and Buenos Aires, 1983, respectively) and the High-Level Conference held at Caracas in 1981. These questions have been discussed in increasingly greater depth, and general principles, norms and specific procedures have been laid down for setting economic co-operation in motion in its different areas.

One aspect of the matter to which priority attention has been accorded in South-South co-operation is the Global System of Trade Preferences. UNCTAD has done important work in preparing specific studies on this subject and at the present time the developing countries are entering upon the phase of actual negotiations. However, a good many difficulties are foreseen in this phase before the system can be put into effect, and for this reason it is of positive significance that the Sixth United Nations Conference on Trade and Development adopted a resolution to the effect that UNCTAD should continue to give its support to current and future studies and negotiations.

Another field recognized by the developing countries as of priority importance for interregional co-operation is that of State enterprises. In the case of many developing countries State enterprises in the aggregate handle a major proportion of their foreign trade, but if these countries operate separately, their commercial bargaining power is limited. Co-operation among State enterprises in different countries of the South would notably improve their position in the market, placing them in situations more similar to those of the great transnational corporations which today control a significant and increasing share of world trade. Moreover, this co-operation may do a very great deal to promote interregional trade if State enterprises begin to give preference to imports from other developing countries.

With respect to the area of financial co-operation, the programme of action adopted at Arusha placed emphasis on the need to broaden and strengthen collaboration among the multilateral payments and mutual credit systems in operation in the

/developing countries.

developing countries. The Caracas action programme further specified possible joint initiatives to alleviate the developing countries' balance-of-payments problems. Over and above the creation of a mechanism to facilitate exchange of information among the various financing systems in operation, different ways and means of gradually interrelating these systems are being devised, especially with a view to promoting trade between Third World countries. Latterly, study has also been devoted to the desirability and feasibility of establishing a multi-national bank for the developing countries, whose main objective would be the expansion not only of those countries' total exports but also of South-South trade.

The meagre results of UNCTAD VI once again reaffirm the need to organize the bargaining power of the Group of 77 more efficiently in the future and to give a definitive political impulse to South-South co-operation programmes.

The programmes have been drawn up. The priorities have been established. Procedures for action have been approved. The necessary forums and institutions are available for technical and political dialogue among the developing countries. It would seem, then, that nothing is wanting but to find a mechanism whereby the political impulse that obviously exists can be transmitted, and a beginning can be made on actual implementation of the programmes, even though it may not necessarily be all the Third World countries that take part in them.

B. SOME IMPORTANT ASPECTS OF LATIN AMERICA'S EXTERNAL RELATIONS

1. Protectionism

a) Background data

Protectionism, as part of the trade policy of the industrialized countries, has been one of the predominant features of the international economy in recent years. It has been practiced in all sorts of different ways and has significantly affected Latin America's production and exports of commodities and manufactures.

The region's exports are confronted with a complex array of tariff and non-tariff barriers in the markets of the industrialized countries. In connection with the first, stress should be laid on the negative impact of tariff escalation according to the degree of processing of the products exported, which has been a major hindrance to regional industrialization. Outstanding among the second group are quantitative restrictions on imports, variable surcharges, safeguard clauses, "voluntary" restraints, discriminatory practices, countervailing duties, technical barriers to trade and subsidies on production and exports. Protectionism has also been accentuated by other modes of action that take the shape of "arrangements" between the parties, which the countries of the region have had to accept as the only means of exporting to a developed country, a case in point being the GATT Multi-Fibre Arrangement.

The scope and importance of this set of protectionist measures can be fully appreciated if it is recalled that in recent years, according to pertinent calculations, about half the region's exports (excluding petroleum) to the United States, the European Economic Community and Japan were subject to the measures in question.

In practice, the forms of protectionism mentioned, and others that it would take too long to list, are progressively building up a situation in which the industrialized countries have acquired the capacity to "manage" their trade with the developing countries, and particularly with Latin America. They may put this management into effect only on occasion, or, if necessary, they can feasibly make it more comprehensive, more intensive and more frequent. Analysis shows that these countries' domestic demand is increasingly satisfied, on preferential terms, with domestic production, while controlled use is made of imports to supplement the domestic supply.

b) New forms of protectionism

Since the beginning of the present decade, the impact of the recession on economic activity, the high level of idle production capacity, the slow pace of structural adjustments, the stagnation of external trade, and the rapid rise in unemployment in the industrialized countries, have made for the intensification of protectionist pressures. This has been reflected not only in stiffer application of barriers already existing, but in the creation of new types of measures which in the aggregate have come to represent a formidable additional obstacle to the growth of international trade.

/The new

The new protectionism is characterized by a series of features which it is worth while to underline. In the first place, it has grown up outside the rules and obligations of the international trade system based on the application of the GATT provisions. Secondly, it is essentially bilateral and increasingly tends to discard multilateralism as a mechanism for resolving the ever more serious economic and trade problems existing today. Thirdly, it does not merely comprise restrictions and barriers applicable to imports at the frontier, but is extended to external markets by way of subsidies to domestic exports and industries, through economic and administrative measures designed to increase their competitiveness and comparative advantages. Fourthly, protectionism has been gradually increasing in level and kind as a result of the veritable "trade warfare" currently waged among the industrialized countries. These countries have imposed a series of restrictions, measures and rules to maintain their positions and have extended the sphere of protectionism to new sectors. Such measures, however, have not only introduced serious constraints into international trade as a whole, but have most particularly affected the developing countries, which, in view of their weak bargaining power, have been able to do little to counteract these new restrictions. Protectionism has not only had a negative incidence on the already depressed level of international trade, but has profoundly influenced the development strategies of many Latin American countries, greatly slowing down the region's industrialization process. Fifthly, it has been reflected in the multiplication of agreements on voluntary restraints or of "managed" or "regulated" trade based on reciprocity stricto sensu. The rigid application of this concept has led to a proliferation of preferential systems, which hampers the operation of economic agents.

The new rules which are applied to merchandise trade today, particularly among the industrialized countries, are based on concepts alien to the multilateral system. Among those that have recently emerged -and are frequently utilized- it is worth while to single out the following: i) "unacceptable levels" of "market penetration" or of "maximum proportion of the market", whereby the importing industrialized countries can set limits to imports from certain countries; ii) "minimum import prices", signifying fixing prices and wiping out every possible comparative advantage of imports from third countries over domestic production; iii) "low-cost or unfair production", which enables the industrialized countries to restrict the advantages enjoyed by exports from cheap-labour regions or countries, etc.

As has already been observed, to the protectionist measures applied at the frontier have been added others which have had a decisive impact on the competitiveness of various sectors of production in the markets of the industrialized countries, their object being to place domestic industry and agriculture at an advantage, whether in the external market or with a view to maintaining or expanding existing markets or penetrating new ones. The role and participation of the State have been of conclusive importance in this connection, notwithstanding that government declarations uphold different theses in some countries of the North. State action has been taken through specific financial and administrative measures, the commonest of which have been the following: reductions of taxes and duties; low-cost loans; management of the exchange rate; assistance in consolidating inefficient industries in sounder groups; promotion, support and financing

/of such

of such activities as research and development; rapid depreciations of capital; and a whole series of direct and indirect export aids, including, in particular, subsidies.

Recourse to this last measure was of frequent occurrence in 1980-1983. It is estimated that the proportion of exports of manufactures benefiting by subsidies is 13% in the United States, 25% in France, 42% in Japan and 51% in the United Kingdom.^{15/} In the agricultural sector, estimates show that far more than half the volume of world agricultural trade is dependent on export subsidies. In 1982 these represented an approximate total of US\$ 11 billion for the United States and the European Economic Community together. With the addition of production subsidies and other types of financial support for the agricultural sector, the figure for these countries rises to US\$ 40 billion.

This direct State intervention in the industrialized countries in face of the crisis, designed to influence trade results in their favour, has significantly eroded the multilateral principles and mechanisms of GATT. Moreover, it has let loose a series of retaliatory chain reactions among these very countries vis-à-vis protectionist measures conducive to the consolidation or extension of positions held by one of them in the international market, on the basis of advantages acquired through subsidies; this has enlarged the sphere and considerably exacerbated the temper of the trade "warfare" against them.

These compensatory measures have multiplied by leaps and bounds during the last few years. In the United States, for instance, the number of investigations relating to anti-dumping and countervailing duties rose from 62 in 1980 to 160 in 1982, while in the European Economic Community the corresponding figures were 25 and 58, respectively. In the same period, investigations concerning Latin American exports increased from 6 to 37 in the United States and from 3 to 9 in the Common Market.

The use of these instruments has been highly prejudicial to Latin America, since it has been especially concentrated in sectors of vital interest to the region, such as steel, leather manufactures, footwear, textiles and chemical products.

Although the increased application of countervailing duties was aimed at combating unfair practices deriving from State or private subsidies, other factors account for the proliferation of these measures. In the first place, the facility with which investigations could be initiated, as regards both conditions and the persons entitled to undertake them. Secondly, purely technical measures are involved, in respect of which the government has no discretionary power and whose microeconomic approach (damage caused to one particular industry) does not take account of broader interests, whether those of the exporter countries or those of the consumers themselves. Thirdly, the countries' own legislation in this field is stricter than that adopted in the GATT Code on subsidies and countervailing duties. Fourthly, the domestic industries affected by imports from

/third countries

third countries prefer to resort to technical instruments such as countervailing duties, since they have a better chance of application by the government than other measures -such as safeguard clauses- whose cost and political or economic risk is higher. Lastly, in a situation of recession and high rates of unemployment like that of the industrialized countries today, pressures of a domestic and political type may, in their turn, influence the initiation of investigations on supposed dumping practices on the part of some country whose exports are seriously affecting a local industry which in levels of efficiency and competitiveness are low.

The negative effects of these compensatory measures are numerous. The mere opening of an investigation, by virtue of the implicit risk of application of countervailing duties, has a discouraging effect on the importer, who prepares, in many cases, to rechannel his purchases and obtain supplies from other countries. In turn, the liberality of the requisites for opening investigations means that the exporter is exposed to great insecurity and uncertainty, which negatively influence his investment and production plans. In several instances the cost to the importer implicit in the application of countervailing duties has been transferred to the exporter, who is compelled to absorb the burden of these measures by reducing his prices in order to maintain his sales in the market in question. But the most disquieting element is the increasing use of these instruments to provide protection for a domestic industry in difficulty. A case in point is that of the United States steel industry. Greatly harassed by the increasing flow of steel exports from the European Economic Community, in 1982 United States steel manufacturers placed before the Government 92 complaints against dumping through subsidies which covered more than half of EEC's steel exports. This situation gave rise to serious pressure on the governments of the United States and of the EEC countries to seek a negotiated solution.

This finally took the form of an agreement on voluntary restraints respecting European exports to the United States market. In face of the success of this strategy, the United States industry submitted fresh complaints in September 1983, alleging that steel from some developing countries is heavily subsidized, with a view to obtaining quantitative restrictions similar to those that had set limits to European sales. Data supplied by the industry show that United States imports from the Third World represent 45% of that country's total steel imports. Brazil, Mexico and Argentina are among the suppliers of the United States market and would be affected if action were taken in this direction.*/

Indubitably, the intensification of protectionist pressure is seriously threatening the very foundations of the international trade system based on the application of the GATT provisions.

The proliferation of measures to restrict imports or of aid to domestic production and to exports; the extension of "managed" sectors of trade through ad hoc measures; the steady increase in the industrialized countries' use of

*/ The United States Iron and Steel Institute is exerting pressure for the adoption of legislation to restrict steel imports to 15% of domestic consumption.

bilateral channels to settle their trade differences; the continual non-compliance with the rules and disciplines of GATT and with its several codes, as well as the persistent discrepancies both as to the interpretation and as to the application of certain important GATT provisions; and the multiplication and exacerbation of commercial lawsuits among member countries, are among the more obvious manifestations that seriously jeopardize the stability and operation of the multilateral trade system. All these problems call for urgent attention on the part of the international community.

2. Impact of protectionism on Latin America

a) The agricultural sector

The objective of maintaining or strengthening the income of agricultural producers in the industrialized countries continues to provide grounds for giving more and more protection to the agricultural sector. This has been done by means of a series of incentives ranging from the establishment of guaranteed support prices for production to a number of direct or indirect aids such as the application of restrictions at the frontier (import tariffs and quotas or variable surcharges) designed to raise the price of an imported product to the level of the domestic price. According to estimates, the average level of protection for agricultural products in the industrialized countries is equivalent to more than three times as much as is accorded to manufacturing industry.

For Latin America, protectionism in favour of the agricultural sector has been one of the chief obstacles to a dynamic expansion of commodity production and trade, particularly as regards temperate-zone products (cereals, meat, milk products, oils, sugar). The selfsufficiency-oriented policies pursued by some of the industrialized countries have seriously limited conditions of access to the international market for a substantial quantity of products. Moreover, the surpluses generated through high-cost support policies have come on to the international market in competition with efficient exports from developing countries, thus depressing prices still further. Lastly, the export subsidies mechanism, frequently used by the industrialized countries to promote sales of their products, has had a definitely regressive effect on the position of developing countries in traditional markets and, in some cases, has even led to the loss of the markets concerned. By way of example, it may usefully be pointed out that the European Economic Community, which at the beginning of the 1970s was the leading importer of beef and the second importer of sugar in the international market, has become, since the beginning of the 1980s, the foremost exporter of sugar on the free market and the second world exporter of beef. In the United States, too, additional restrictions have recently been introduced on imports of meat and sugar.

b) Textiles and clothing

The Multi-Fibres Arrangement (MFA), which regulates international trade in textiles, is in itself at variance with the provisions of article XIX of the GATT, since it allows the use of quantitative and discriminatory restrictions on imports of a wide range of products from developing countries.

The 1981 protocol, known as MFA III, prolonged this arrangement from 1 January 1982 to 31 July 1986.

It introduces a number of provisions which are even more cramping to international trade in textiles than the preceding arrangements. In the first place, it includes the concept of setting limits to imports of textiles and articles of clothing from "dominant suppliers". For this purpose, quotas are reduced and negative rates of increase are applied. For countries regarded as of medium importance in this sector, such as Brazil, Colombia, Mexico, Peru and Uruguay, the most potentially harmful element is the introduction of the "anti-surge" clause. If it is borne in mind that in recent years the levels of these countries' exports have been very variable and that in many cases quotas have been underutilized, this instrument might be damaging to future exports.

In reality, MFA is nothing but a multilateral legal framework within which bilateral restraint arrangements are negotiated. Thus, the merit of this legal framework ultimately depends upon how far the disciplines negotiated in the multilateral arrangement are respected in the bilateral arrangements, where, obviously, there is a very marked inequality of bargaining power between the importer and exporter countries.

c) Footwear and other leather products

The footwear and leather products industry in the industrialized countries has undergone a marked deterioration in its competitive position vis-à-vis the developing countries since the beginning of the 1970s. This has been due to the relative costs of the two industries and also to the increased penetration of imports of a vast range of leather products from abroad.

As a result of this situation, a process of stepping up the levels of protection for these industries has set in, the following being its main axes: i) limitation of imports through multilateral or bilateral quotas or voluntary restraints; ii) application of countervailing duties; iii) increases in customs duties and tariff escalation in accordance with the level of processing; iv) direct and indirect support policies for domestic industries; v) measures to secure the suspension of trade restrictions on exports of raw hide or semi-processed leather from producer developing countries; vi) restrictive trade practices; and vii) market access subject to reciprocity.

These constraints have an adverse impact on Latin American exports of footwear and leather products to several industrialized markets. For instance, on more than one occasion the United States has imposed countervailing duties on imports of Brazilian footwear. These exports are also affected by bilateral quotas in the Federal Republic of Germany and in Italy, and by multilateral quotas in Japan.

In addition, EEC has imposed a system of surveillance of imports of footwear which limits the free circulation of such products within the Common Market.

/The existence

The existence of high customs duties in the industrialized countries, and above all the effective protection of local industry through the tariff escalation mechanism, have led various Latin American countries to grant incentives to exports of leather products in order to promote or facilitate their access to the markets in question. This has given rise to eight investigations in the United States against Latin American exports of items of clothing in leather, three against leather handbags and another three against leather footwear. These measures have considerably reduced the proportion of the United States market which is supplied by Latin America.

d) Steel-making

In 1982 and 1983 international trade in steel and steel products continued to be subject to major obstacles in the leading industrialized countries. The protectionist structure in the industrialized countries is made up of three main instruments: i) quantitative restrictions; ii) price controls; and iii) anti-dumping and countervailing duties.

Quantitative restrictions on imports are aimed at limiting foreign penetration to a specific percentage of the domestic market. These restrictions take the form of export limitation arrangements or the application of bilaterally negotiated quotas. Thus, the United States manage their steel imports from Japan and the European Economic Community through limitation or voluntary restraint agreements. Similarly, they limit their imports of special steels, of great importance to Brazil, through similar arrangements with fourteen countries which account for 70% of total United States imports under this head.

The main objective of the import price controls utilized by certain industrialized countries is to cancel out third countries' comparative advantages over domestic industries. In the United States there is a trigger price mechanism which enables the Department of Commerce to control the prices of imported steel. This system, which was suspended at the beginning of 1982, was reintroduced in that same year for special steels. In the European Economic Community two price control systems exist: a system of base prices for countries not subject to agreements and another, more favourable, known as an "agreed price" system for those that have negotiated on limitations with EEC.

Countervailing and anti-dumping duties are the instruments that are acquiring most importance in protection for the steel industry in the industrialized countries. Notwithstanding that they have a function of their own - that of making good the damage done to domestic industry by subsidized imports from third countries - it is obvious that the application of these measures complements the action of quantitative restrictions and price controls. Similarly, they may serve as a price control instrument in default of a floor-price system. Countervailing and anti-dumping duties have, in addition, a discouraging effect on the importer as well as on the exporter. At the same time, the liberality with which these measures are being applied is a motive of concern.

In 1982 more than twenty anti-dumping or anti-subsidy investigations were recorded in the steel sector in the United States and eight in EEC in relation to exports from Latin America. At the end of 1983, the United States Steel

/Corporation, the

Corporation, the leading United States steel-making industry, lodged complaints alleging that the steel imported from Argentina, Brazil and Mexico is heavily subsidized and also presented an anti-dumping case in respect of imports from Brazil. It alleged that the State subsidies granted to Mexico's steel products cover 35% of production costs and that in Brazil and Argentina the corresponding proportions are 50 and 55%, respectively. The Latin American countries described these assertions as unjustified.

The United States steel industry as a whole is seeking to restrict imports from Latin America and is making ready to do so on various fronts. Apart from the above-mentioned complaints lodged by the United States Steel Corporation, the United States Iron and Steel Institute is exerting pressure on Congress to adopt legislation which would limit total United States imports of steel to 15% of domestic consumption (it is estimated that today they cover 20% of the market). Bethlehem Steel, another of the leading United States producers, is trying to obtain backing for the taking of action against all imports, under section 201 of the United States Trade Act of 1974 (safeguard clause), through quotas or tariffs or a combination of the two measures.

As regards EEC, the Commission is trying to impose a "voluntary restraint" agreement with respect to Brazilian exports of steel products other than castings. Furthermore, it has embarked upon exploratory contacts with Argentina and Venezuela with a view to concluding "managed" market agreements.

Clearly, therefore, the drift of trends in the steel industry is towards increased protectionism and managed trade. Within this restrictive framework, prospects for the Latin American countries are not very bright, since their exports, together with those of other developing countries, represent a very high proportion of the trade with industrialized countries that is not yet covered by restrictive or self-restraining agreements. The many examples cited show that steel exports from the countries of the region are gradually becoming the focal point of the main industrialized countries' attention, and that a major offensive against them has already begun.

Apart from the four sectors mentioned, which are of particular importance for the region, the manufactures exported by Latin America have been the object of a tendency on the part of the industrialized countries to accentuate protectionism in recent years with respect to the whole of that sector. This has had a negative impact on investment in export-oriented manufacturing activities and has significantly hampered the industrialization process in many countries of the region.

While it is difficult to measure the overall repercussion of the increase in protectionism, this phenomenon may be regarded as one of the main problems currently affecting international economic relations and preventing a dynamic reactivation of the world economy, since it applies not only to North-South trade, but also to trade among the countries of the North.

3. Latin America and proposals for the liberalization
of services and investment flows

Motivated by the increasing economic and social importance of their tertiary sectors, some developed countries -in particular the United States- are advocating the adoption of a set of international commitments of a legal type, the aim of which would be to remove obstacles which are thought to be obstructing international services and investment flows today.

In considering these proposals, it is advisable to separate the two major topics at issue:

a) Services proper

The many-sided and changeable nature of the relations between services and economic development means that in the first place the quantity, quality and prices of services affect production, distribution and capital formation in a given economy, and that secondly the structure of production and distribution and capital formation also influence, in their turn, not only demand for services and their cost, but also the degree of absorption of manpower in the sector.^{16/}

Most of the internationally "tradeable" services, such as insurance, banking, transport and telecommunications, tend to act as veritable "lubricants" of the countries' economic and social apparatus. While it is difficult to quantify their effect on the tissue of economic and social life, it is easier to divine how certain inefficient policies relating to the creation of artificial demand or the granting of monopolistic or monopsonic powers may result in costly and poor-quality services. These in turn may -directly or indirectly- raise the cost of industrial, mineral and agricultural inputs, or generate obstacles either to their production or to their marketing, both in domestic and in international markets.

The developing countries -especially those of Latin America- are net importers of services. Excluding interest payments, the regional imbalance under the head of invisibles amounted to US\$ 14 billion in 1980 (including remittances of profits).^{*/}

The performance of the internationally tradeable services sector largely depends upon the productivity, competitiveness, efficiency and size of the domestic services sectors. Owing to the complementary nature of the latter, economies whose primary and secondary sectors have reached an advanced stage of development are apt to have a predominantly "modern" services sector with a large "tradeables" component. In economies where agriculture and industry are relatively less developed, the services sector will tend to be more "traditional", with fewer "tradeable" activities. Recognition of this structural disequilibrium is of key

^{*/} The United States Department of Commerce has worked out a new calculation methodology for services transactions, considering that the methods in current use significantly underestimate the values in question. If this methodology is applied, the deficit may possibly turn out to be substantially bigger.

importance for a realistic perception of the picture currently presented by the international services market. Obviously, the relative capacities of countries to develop and strengthen their services activities, both domestic and internationally tradeable, are not equitably distributed. This accounts for the developing countries' almost total lack of services enterprises competing on equal terms with enterprises in developed countries. Banking, insurance, air and maritime transport, publicity and auditing, information systems and telecommunications are all activities almost exclusively dominated by enterprises in the industrialized North. The few services enterprises in developing countries that have participated to some extent in international trade in services seem to have done so thanks to substantial State support.*/

The high degree of concentration of supply capacity in respect of internationally traded services calls in question the advantages that Latin America would derive from a global "liberalization" of these transactions, especially in view of the increasing drift toward "managed" trade by which merchandise trade is marked.**/

Accordingly, defining national and regional policies is a prerequisite for undertaking any attempt to liberalize services trade. Such policies would be basically directed towards identifying the most appropriate ways and means of cushioning any negative impacts that might derive from the over-powerful position of some exporter countries, since in free trade conditions these would enjoy an undue comparative advantage.

Clearly, large enterprises that are dominant in several markets can increase their degree of monopolistic power in a more open international market, through a series of restrictive trade practices, such as their price policies, stemming from the degree of reliability of the services they offer, from the geographical pattern of their activities, from differential access to financing, etc., all of which enable them to subsidize activities in the aforesaid more competitive markets, using surpluses obtained in the markets where they have monopolistic power ("cross-subsidizing").

In such cases, trade liberalization, far from promoting more efficient resource allocation, may help to strengthen the monopolistic power of certain enterprises, to the detriment of the wellbeing of individual countries, especially those that are weaker and less developed.

*/ It should be borne in mind that State monopolies in telecommunications, air and maritime transport, reinsurance, etc., are common in many developing countries.

**/ It must not be forgotten that the developed countries do not always uphold the comparative advantages argument when it runs counter to other interests. In the case of such goods as agricultural products, textiles, petroleum and steel, and more recently electronic products and automobiles, it is explicitly recognized either that the degree of competitiveness in the markets concerned is imperfect or that other national interests override considerations of pure economic efficiency.

/b) Investment

b) Investment flows

A critical review of the line of argument followed by the developed countries reveals that their predominant interest lies in the liberalization of conditions for the establishment of subsidiaries or branches of firms producing services in other countries and, by the same token, for investment flows in general.*/ With this end in view, the United States Department of Commerce is promoting a new methodology for services sector statistics which would replace the "location" criterion (an enterprise located in country A exports to country B) by the "ownership" criterion (an enterprise in country B owned by country A "exports" to country B).

Under the ownership concept, "an enterprise is considered to be part of the economy of the country whose residents own or at least control that enterprise, rather than part of the economy of its host country" ... "The concept of ownership could be applied to transfers of merchandise as well as of services ..."17/

This new procedure would mean that an activity was no longer tradeable in terms of the crossing of frontiers, but in terms of differences of nationality between the owners of the means of production of a service and its consumers, whatever the geographical location of either, which may -of course- include the residence of both producers and consumers in the same country. Acceptance of such criteria would imply admitting the possibility that developed countries may designate as "obstacles" to trade the "norms" that govern, for example, "the right of establishment" for foreign investment in a given country, and, therefore, may counter these regulations by the adoption of commercially and financially distortive measures.

Foreign investment is what really lies in the political and economic background of the proposals that are being internationally promoted with respect to services. Their projections are so far-reaching that it really does not seem advisable to consider them under the general head of services trade, since they ought properly to constitute an issue entirely separate from questions relating to trade flows.

Although it is true that one of the pre-eminent ways of internationalizing service activities is the use of subsidiaries and branches in foreign markets, their indiscriminate aggregation would establish bases and precedents with serious implications for foreign investment criteria and treatment in general, whether the investment is placed in the extractive, agricultural and/or manufacturing sectors or in services activities.

*/ The United States Department of Commerce estimated that in 1980 the country received about US\$ 92 billion for services exported through subsidiaries and branches as against only US\$ 36 billion from across-the-frontier exports.

There is still more reason for concern if it is borne in mind that the intention is to establish a multilateral framework of principles for investment under the aegis of the GATT. Specifically, to extend the application of the most-favoured-nation clause and the Right of Establishment to international investment flows. Experience has shown that the use made of the General Agreement on Tariffs and Trade has on many occasions ignored the real facts on which the existing international division of labour is based. Although, in theory, this division of labour should reflect the comparative advantages of the various countries, the truth is that the Agreement has gradually been creating a system of "managed" trade in terms of the economic and political interests of the strongest countries. All that this has done is to erode the advantages of a multilateral trade system.^{18/}

From this point of view, it is hard to imagine how the GATT, with its present structure, could efficaciously and equitably serve the interests of Latin America. What is more, the inclusion of the subject of investment in discussions on services adds a further element to the extreme complexity and heterogeneity of the basic debate.

The conclusion to be drawn from the foregoing comments is that Latin America should unequivocally separate multilateral discussions on services transactions from those relating to international investment flows. It is obvious that the political and economic projections of the two issues preclude a common approach and that their joint presentation only creates confusion as to the real background of the proposals relating to services.

Consequently, the following comments refer primarily to services trade. They will be succeeded by a few brief notes on investment, in so far as it is connected with services.

The adoption of any coherent and well-knit policy regarding international services trade will have to centre upon a thoroughly clear definition of the specific forms of insertion of services within the domestic economy and the ways in which they are brought into harmony with the requirements of economic efficiency and other objectives, such as full employment of manpower, reduction of political pressures of external and internal origin, considerations of national security and economic autonomy, conservation of cultural identity and of lifestyles and consumer patterns of the countries' own, etc.

Among the background material to be considered is the Buenos Aires Platform, in which the Group of 77 adopted a common position to be presented at the VI United Nations Conference on Trade and Development. With respect to services, the following objectives were established: i) to enhance activities in this sector in the developing countries; ii) to bring about a significant increase in earnings in this sector; and iii) to avoid the negative effects on the developing countries of the present structure of international services transactions.

/The Group

The Group further decided to request the UNCTAD Secretariat to draw up a programme of action directed towards the achievement of the above-mentioned objectives.

It also recommended that studies should be carried out to identify and establish priorities for services of particular importance to developing countries, to suggest programmes which would enable the developing countries to secure a larger share in world trade in services, and to put forward suggestions for multi-lateral co-operation mechanisms that would guarantee special differential and more favourable treatment for the developing countries in the field of services. Lastly, it was recommended that UNCTAD should systematically disseminate information on the sector.

The Conference, in its turn, adopted a resolution 19/ in which it is recognized that trade in services is in need of further study and understanding and which states that UNCTAD will continue its studies of the issues involved, especially the role of the services sector in the development process. These UNCTAD studies are to be reviewed during the twentieth session of the Trade and Development Board.

At the regional level, a recent decision adopted by the Latin American Council of SELA 20/ proposed that various studies should be carried out for the purpose of making "an exhaustive analysis of the role of services and international transactions in the services sector in the development process and in the economies of the member states". It also decided to convene a Latin American meeting on co-ordination for the third quarter of 1984, with a view to the adoption of a joint position on this subject.

In the light of this background material, a Latin American programme of work on trade in services should take into consideration the following elements:

a) In relation to services:

i) Owing to the highly heterogeneous nature of the sector, it is difficult to identify specific problems or characteristics, permitting both its global analysis and the adoption of common principles and criteria to be included in the general framework;

ii) This makes it more advisable to favour -in an initial phase- segmentation of discussion on the basis of specific industries. One requisite to this end will be to identify the sectors of most importance for the region's economic development and the most appropriate forums for a relevant multilateral discussion. In this connection, it seems desirable to strengthen the work of specialized agencies such as UNCTAD, the World Tourism Organization (WTO), the International Telecommunications Union (ITU) and others already in operation, and that fuller recognition should be accorded to the imbalances between the tertiary sectors of the North and of the South;

/iii) The

iii) The implementation of the studies on specific industries, besides making it possible to improve the shaky statistical base at present available, should also help to provide for the resolution of several conceptual and definitional problems deriving from the measurement of international services transactions. Perhaps of equal or even greater importance, in respect of the collection of information, are any efforts that may be made to systematize and regularize a mechanism for contacts with the various domestic producers of services, as well as with the main groups of users. This would furnish a valuable supply of information which, in turn, would facilitate the adoption of consensus positions both at the national and at the regional level;

iv) Countries should explicitly define those strategic-type services industries whose production it is deemed desirable to reserve for domestic enterprise, whether public or private;

v) The diversity of the situations existing in the countries of the region, where a "traditional" services sector with few tradeable components is predominant, opens up a wide field for regional and subregional integration and co-operation. Consideration of this aspect of the problem should be accorded priority in the structuration of the specific studies, since many industries that today do not show clear indications of economic viability on a national scale, might attain it by virtue of the economies of scale which integration makes possible;

vi) It is considered, on the one hand, that support should be given to the countries' efforts to go ahead with the preparation of studies on the impact of services on overall economic development, and, on the other hand, that stress should be laid on the many-sided role of services, and on the reciprocal interaction between these and the quality, level and dynamism of economic activity. An element of crucial importance is the identification of the external economies and diseconomies implied by alternative policies for the development of services, as well as definition of the key components of a strategy directed towards the "modernization" of the sector in the countries of the region;

vii) Services, precisely because of their many-sided nature, are customarily activities subject to a number of regulations designed to neutralize their possible negative effects on other national economic and social targets. Many of these are the very regulations that the industrialized countries describe as "obstacles" to trade and services. Accordingly, a major task to be performed is the formulation of criteria whereby an unequivocal distinction can be drawn between "regulations" applicable to industry and "obstacles" to trade and services;

viii) The progress achieved in the foregoing tasks will allow headway to be made in the identification of problems that may be common to several services industries and whose resolution can be facilitated through international co-operation. Only then will it be possible to attempt to formulate a set of multilateral and generally applicable rules for the purpose of regulating such co-operation;

/ix) Since

ix) Since in the industrialized countries there seems to be a similar lack of consensus as to how to approach international co-operation in the field of services, it is recommendable to promote a close follow-up of any pertinent national studies and policies whereby instances of coincidence of interests between the region and some of the developed countries can be identified. Such efforts may redound to the manifest benefit of the defence of regional positions. A key element should be the follow-up of domestic regulations applicable to specific industries in the industrialized countries, as well as their official justification. Particular attention should be paid to the work of the European Economic Community.

b) In relation to investment:

It is true that the internationalization of services is linked in part to the right of establishment of affiliates or subsidiaries in other countries, since this is the only way in which sales of services in the countries concerned can be effected. But it is too hazardous to generalize certain lines of argument which may have a partial validity in discussion of this subject by extending them to the whole vast and complex set of problems relating to international investment flows.

The region has had a conflictive history in respect of foreign investment, and there are no opinions on the subject shared in common. With the exception of decision 24 of the Cartagena Agreement, it has not yet been possible to adopt a regional consensus on this question. The experience of the Andean Group is an important item to take into consideration in discussions on investment.

For these reasons, it may perhaps be wise to avoid across-the-board handling of questions concerning affiliates and subsidiaries and preferably to confine their consideration in multilateral forums simply to those cases that relate to issues bearing on a single services industry. Specific solutions could thus be sought whose applicability would be tailored to the particular needs of the services industry in question.

As regards investment flows in general, as well as the bilateral treaties promoted by some of the industrialized countries, it would be advisable for the Latin American countries to institutionalize a mechanism for consultations and exchange of information which would not only permit collective advantage to be taken of individual experience but would contribute to the establishment of regional consensus on these issues.

C. LATIN AMERICA AND INTERNATIONAL CO-OPERATION

1. Background material

Since the adoption by the General Assembly, on 1 May 1974, of the Declaration and Programme of Action on the Establishment of a New International Economic Order, nearly ten years have been spent in discussions, consultations and negotiations between the developed and developing countries, in countless forums both within and outside the United Nations system.

Dissatisfied with the prevailing limitations of the system of international relations, the shortcomings of its structures and the inaptitude of the mechanisms in force for the satisfaction of their most urgent needs, the developing countries have put forward during this period a series of claims which have formed the leit-motiv of what has come to be called the North/South dialogue, and which pursue two essential objectives:

a) The necessity of introducing structural changes in the system of international economic relations, so that it may not consist solely in the application of "aid" mechanisms or other measures aimed exclusively at the transfer of certain financial resources from the North to the South; and

b) Greater control over the adoption of decisions relating to all international affairs which influence the development of the countries of the South, as well as fuller participation in the systems that determine the course of events and affect their destiny.

Although the developed countries supported the resolution -motivated by the desire to secure agreements for bringing order into the fuels markets, after the price adjustments of the mid-1970s- their predominant mood throughout the negotiation process was one of scepticism as to the competence of the United Nations forums, in comparison with the validity they attribute to the pertinent specialized forums, especially GATT and IMF, in which they have relative power or voting advantages. This has helped to weaken the general framework of the negotiations, and no agreement whatever has been reached with a view to introducing structural modifications in the system of international economic relations.

This dialogue has been conducted in several scenarios. Emphasis may usefully be placed on the negotiations carried out in UNCTAD IV (1976) and UNCTAD V (1979); the GATT Multilateral Trade Negotiations (1975-1979); the Conference on International Economic Co-operation (Paris, 1975-1977); the round of global negotiations undertaken (from 1979 to the present date); the Cancún summit meeting (1981) and, more recently, the Ministerial Meeting of GATT in November 1982, and UNCTAD VI, held at Belgrade in June 1983.

An analysis of what has happened at these international meetings reveals two essential features. In the first place, the central thesis or proposal of the developing countries was maintained throughout the whole of this period. Secondly, on every occasion the results obtained fell far short of the developing countries' aspirations and expectations.

/The developing

The developing countries' central proposal comprises three closely inter-related subject areas: primary products, trade and monetary and financial matters. The objective pursued has been the creation of a new international framework of economic relations between the South and the North which would be more equitable and would allow the developing countries fuller participation and greater decision-making power.

In the field of primary products, they have sought to promote a new approach to commodity trade and to give it a new structure in order to correct the present shortcomings, not only as regards prices (as in the case of preceding approaches), but with respect to export earnings, terms of trade, marketing systems, distribution, transport and local processing.

In the trade sector their basic aim has been to halt and reverse protectionist trends and to advance towards liberalization of international trade through well-defined commitments in respect of standstill agreements, safeguards, subsidies, reduction of tariff and non-tariff barriers, elimination of other existing restrictions and structural adjustment. Similarly, they have sought to establish a set of rules and principles making for a more just and equitable international trade system, capable of really giving shape to differential treatment in favour of the developing countries.

In monetary and financial matters, the developing countries' objective has been the articulation of a new international monetary system which would meet their needs and would enable them to participate more fully in the adoption of decisions that fundamentally affect their interests. In face of the serious and increasing scarcity of resources, attempts have been made to obtain an expansion of resource flows to the developing countries from international financial institutions, in particular IMF, through an additional allocation of Special Drawing Rights; an increase in official aid for development; access to private capital markets; greater participation in financing for development on the part of the multilateral public-sector entities; and an increase in direct private investment, in accordance with the priorities and sectors established by the recipient countries.

The developing countries have also promoted a number of measures for co-operation with the industrialized countries in such areas as transfer of technology, maritime transport, trade with the socialist countries, the special problems of islands or landlocked countries and a substantial programme of action in favour of the less developed countries. Concurrently, headway has been made in the study of ways and means of strengthening co-operation among the developing countries themselves.

2. Some results

A comparison between the developing countries' proposals and the commitments or resolutions emanating from the negotiation conferences highlights the meagre results obtained, which are the source of these countries' sense of frustration as regards the efficacy of international co-operation.

/On repeated

On repeated occasions the developing countries have expressed their dissatisfaction in connection with the following issues:

a) In the area of primary products, they have stressed that after six years of negotiation on 18 products within the framework of the Integrated Programme for Commodities (IPC) of UNCTAD, only three new agreements have been concluded -those on rubber, jute and tropical timber-, four international agreements already existing -on sugar, cocoa, coffee and tin- have been renegotiated, and negotiations under the Agreement Establishing the Common Fund for Commodities have been brought to completion.21/

The rubber agreement is of a traditional type, aiming at price stabilization within a negotiated margin, through the establishment of an international reserve. Although the negotiations arose out of the IPC, it has not so far been possible to decide upon measures of any kind under this agreement. The international agreements already in existence that have been renegotiated have retained their original features as regards centering their objective on price stabilization. In the case of jute, the results obtained are very limited, since the agreement has no economic clauses and the international measures for which it provides are confined to certain research and development projects, reduction of costs and promotion of trade. Nor does the agreement on tropical timber contain economic clauses, and it is modest in its initial objectives and measures. However, it embodies a potential for evolving through time and becoming an instrument of importance for the tropical timber economy.

b) The developing countries have pointed out that the Common Fund emerging from the UNCTAD negotiations proves to be a much weaker mechanism than had been visualized in principle. Its resources and power are much less and its potential usefulness will depend upon the existence of international commodity agreements which need the mechanism and establish links with it. Nevertheless, the Common Fund could become an important innovation in international economic relations, and, furthermore, offers a number of interesting constituent elements.22/ Despite the lapse of time since the adoption of the text of the Common Fund agreement in 1980, this new financial institution has not yet come into operation, since the necessary requisites in the shape of ratification by member countries and of capital have not been fulfilled. So far, 108 countries have signed the Agreement but only 53 have ratified it, the requirements being that 90 should do so before it can come into force, and that these countries should account for two-thirds of the capital directly contributed to the Fund. The contributions of the countries which have already ratified the Agreement amount to 36.25% of the total capital.

It is as well to recall that even if all the developing countries were to ratify the Agreement, the view is held that unless the United States or the socialist bloc follow suit, it will be very difficult to obtain the two-thirds

/required. According

required. According to the deadlines established by UNCTAD VI, to enable the Fund to be brought into operation on 1 January 1984, the foregoing requisites should have been fulfilled before 30 September 1983, which was not done.

c) Another fact underlined by the developing countries is that within the framework of international commodity agreements no proposals have been accepted on better conditions of access to the markets of developed countries, or on fuller participation of producers in the systems of commodity marketing and distribution, or on increased industrial processing of raw materials in the developing countries themselves. All these issues are still the object of studies but not of action. Lastly, neither has agreement been reached as to entering upon negotiations to broaden the coverage of compensatory financing.

d) In the sphere of international trade, the developing countries point out that within the GATT negotiations have primarily been concentrated on resolving the trade problems affecting the reciprocal relations of the United States, Japan and the European Economic Community. The objectives of the developing countries were accorded only marginal consideration, or none at all.^{23/}

e) They have stated that in more recent negotiations, despite the crisis through which the world economy is passing, protectionist measures have been accentuated, and no progress has been achieved in programmes to facilitate structural adjustment, in respect of multilateral directives to guarantee the stability of the Generalized System of Preferences, or in the area of countervailing and anti-dumping measures, or of safeguards and subsidies. Lastly, neither has any headway been made in the establishment of a new set of rules and principles for international trade which would be more just, more equitable and more efficient. The developed countries have taken refuge in the defence of the existing system, which is of use to them as a means of conserving their immediate interests. The Ministerial Meeting of the GATT in November/December 1982 was a case in point.

f) In the financial and monetary area, the developing countries have stressed that their proposals with respect to a new allocation of Special Drawing Rights (SDR), a significant increase in IMF quotas, or an expansion of the compensatory financing facility have also passed unheeded, nor has progress been made in initiatives for the reform of the international monetary system, notwithstanding that some developed countries have indicated the possibility of an international conference on monetary and financial questions.

Some of the developed countries consider that the existing co-operation institutions and mechanisms are sufficient to increase and strengthen international economic relations and that there is no such need for structural changes as the developing countries have affirmed. Emphasis has recently been placed by some industrialized countries on the role of the automatic adjustments deriving from full application of the market rules of the game. They have also expressed their dissatisfaction with the large number of fronts on which negotiation has been proposed by the developing countries and the difficulty of dealing with all of them together.

/This list

This list of proposals that have not been accepted by the industrialized countries is illustrative of what the dialogue between North and South has been hitherto and justifies the prevailing sense of frustration and disillusionment. The exhortation to dialogue and negotiation made by the Group of 77 in the Platform of Buenos Aires made no difference to the results achieved during UNCTAD VI, held at Belgrade in June 1983.*/ The dialogue between industrialized and developing countries has obviously brought no stable and effective solutions to bear on the grave and increasing problems of the world economy.

3. Prospects for international negotiations

A number of facts that are evidenced by what has happened in recent years in international negotiations are deserving of dispassionate and realistic analysis by all the parties involved, if these negotiations are to be rescued from their state of stagnation, precisely at so critical a time as the present, when active and alert international co-operation, matching the urgent needs of the developing countries, is more than ever essential.

On several occasions attention has been drawn to certain attitudes and positions which should be reconsidered, if the negotiation process is to be given dynamic impetus. The following in particular stand out as the major obstacles which need to be examined by all the parties:

a) The fundamental disparity of criteria, approaches and objectives between the industrialized countries and the developing countries in almost all important aspects of the North/South dialogue. Seeing that the bases, rules and power relations which govern such negotiations are determined by the power structure at the world level, their results have been inevitably asymmetrical;

b) The deterioration of multilateralism as a mechanism for resolving critical economic and financial problems. The drift towards tackling problems bilaterally, particularly through conjunctural policies, is becoming more marked. Given the existing power relations, the burden of adjustment is transferred to the developing countries;

c) The essential weight that is still carried by the viewpoint of certain countries in the final position of the market-economy developed countries;

d) The position taken up in the North/South dialogue by the socialist countries, which do not feel themselves committed to the negotiation process.

This attitude has gained strength by never being called in question. Hence all negotiations become a dialogue between the developing countries and the market-economy developed countries;

*/ An exception, perhaps, is the adoption of the Substantial New Programme of Action approved by UNCTAD for the Least Developed Countries.

e) The decision of most of the industrialized countries to give preference to such forums as GATT, IMF and the World Bank rather than those of the United Nations system, in particular, UNCTAD. With all due regard to the function corresponding to these forums, the indispensable role that must be played by political dialogue needs to be reinstated, together with technical discussion within the world organization and its specialized forums;

f) Although progress towards other forms of international co-operation makes it imperative to launch simultaneous attacks on many fronts, lack of selectivity has militated against the efficacy of negotiation processes;

g) The want of a political decision on the part of some developed countries to advance towards a restructuring of the international trade, monetary and financial systems, in order to make them better fitted to promote more harmonious and more equitable development. While the complexities of this objective are fully recognized, it is important for all parties to move forward in this direction;

h) The insufficient stress placed on the fact that there will be no sustained and lasting reactivation of the world economy without a significant recovery of the economies of the developing countries, to which end it is not enough to wait for reactivation in the centres and its trickle-down on the periphery. International co-operation is an indispensable concomitant, especially in the fields of trade and finance;

i) The role of basic importance which the industrialized countries continue to assign to the so-called free play of market forces as the axis of structural adjustment, and their opposition to government intervention at the international level, notwithstanding their frequent recourse to it at the national level;

j) The incapacity of the bargaining power of the Group of 77 to give their points of view sufficient weight in international dialogue is the product of structural weakness, but is also influenced by the fact that the organization and exercise of that bargaining power has never been gone into in any great depth.

All these considerations should induce the developing countries to overhaul the priorities of their future international action. If they cannot strengthen their bargaining power and capacity solidly enough at least to modify the power relation governing negotiations, there is every likelihood that the dialogue between North and South will be condemned in future to frustrations similar to those experienced up to now.

The bargaining capacity of the developing countries is to a significant extent dependent upon themselves. Accordingly, the first indispensable step is a radical intensification of co-operation and solidarity among the members of the Group. Obvious, too, is the need to reconsider objectives, procedures and strategies for future negotiations with the industrialized countries, so that dialogue may be more efficacious and may be reflected in more positive results.

D. LATIN AMERICA IN RELATION TO WORLD ECONOMIC TRENDS
OVER THE SHORT AND MEDIUM TERM

This section explores the outlook for the Latin American economy in the light of the probable performance of the world economy over the short and medium term. In particular, an attempt is made to link the future evolution of the economic proceedings and policies adopted by the industrialized countries with the possibilities of regional economic reactivation. The different significance of the two processes should be clearly distinguished, in the sense that in present circumstances a possible recovery of the world economy does not automatically imply a parallel reactivation of the Latin American economy.

With all due regard to the decisive role played by the industrial centres in the promotion of the productive forces of the world economy, the dynamic impact which a reactivation of the economies of the North might produce on Latin America will be strongly conditioned, inter alia, by three main aspects of the present centre-periphery relation: the evolution of Latin America's external indebtedness, the future magnitude of its volume of exports and the price of Latin American products in the world markets, and the intensity of the central countries' protectionist tendencies vis-à-vis Latin America's exports.

1. Prospects of reactivation in the industrialized countries

The prospects of a firm economic recovery on the part of the OECD countries largely depend upon the economic policy adopted by the Government of the United States. The outlook for the economic recovery of that country is not only of importance because of its decisive influence on the rest of the developed countries with market economies, but also on account of its significant economic, financial and commercial incidence on the economy of Latin America.

Recent indicators for the United States economy have shown a marked recovery in its rate of growth and a very considerable reduction of its rate of inflation. It has also been emphasized in internal discussion in the United States that the present anti-inflationary strategy is accompanied by heavy fiscal and trade deficits which are to a large extent offset by the substantial inflow of dollars from the rest of the world, thanks to the attraction of the high rates of interest in force. The fiscal deficits of the Federal Government are counterbalanced by the issue of securities which, in conjunction with a generally restrictive monetary policy, help to keep the rates of interest high.

Studies made by OECD indicate that in 1983 the 5.4% deficit registered in the United States federal budget in relation to the gross national product has been partly induced as a cyclical result of the recession. But for the period extending up to 1986, even on the assumption of a major recovery, the fiscal deficit may approach 6% of the GNP for structural reasons based on its present growth trends. 24/

In view of this possible evolution, the alleviation of the upward pressure on the international rate is uncertain.

In the light of this expansive fiscal picture and of the probable continuance of restrictive monetary policies (since monetary expansion is, in its turn, seriously conditioned by fiscal policy), it is impossible to dismiss the views of those who fear that the recovery of the United States economy does not clearly imply a significant reduction in interest rates. This fact is of fundamental importance in the medium term, above all for judging of the solidity of the present recovery and the growth prospects of the economies of the other OECD countries and of Latin America.

In the first place, the high rates of interest discourage investment in production processes, and operate in favour of financial investment, which is an obstacle to economic reactivation and a stimulus to recession and unemployment. This, in turn, helps to depress world demand for goods, including, in particular, demand for commodities, and causes a fall in the export prices and earnings which derive from that demand, thus undermining the capacity to import. These same recessive trends, together with the overvaluation of the dollar, act as a spur to the protectionist propensities that are emerging in the industrialized countries, thereby still further depressing international trade. They also increase the burden of current debt and its servicing, creating, in Latin America's case, a situation which borders dangerously upon the maximum extreme of social tolerance.

Analysis of the six OECD economies reveals an additional factor common to all of them, which has been and is sure to continue exerting influence in the short and medium term on the possibilities of reactivation in these countries and therefore in the world economy. The factor in question is the slump which has occurred in all of them in the rates of return on industrial activities. It is of interest to verify in table 28 that this trend has been systematically registered by the six countries, including Japan.

If net profit rates in the branches of industry of these six economies is related to the real interest rate, the expectations of the industrial investor in 1982, vis-à-vis the alternatives represented by returns on financial investment, may be said to have been the lowest in the last 15 years. In the opinion of many analysts, these indicators do not make for an optimistic image of recovery in the centres, and give grounds for serious doubts, over the medium and long terms, as to the prospects of maintaining the present expansion, unless a significant drop in interest rates occurs.

During 1983, certain events took place that might be prejudicial to the recovery of the fixed investment of enterprises, which is essential for the achievement of sustained expansion. In the first place, interest rates remained extremely high in relation to the rate of inflation. Recent data for the third quarter of 1983 and for the seven leading industrial countries show that long-term interest rates were about 5% higher than the current rate of inflation during the period in question. Secondly, there is still uncertainty as to the future course of inflation. Beyond the next two years, price trends will depend upon the

Table 28

SELECTED OECD COUNTRIES: EVOLUTION OF RATES OF RETURN ON MANUFACTURES

Pure profit rates		Rate of	Real	Pure	Rate of	Real	Pure	Rate of	Real	Pure
		return on capital	interest rate	profit rate	return on capital	interest rate	profit rate	return on capital	interest rate	profit rate
		United States			Japan			Germany		
Rate of return on capital minus real long-term interest rate: manufacturing	1965- 1969	23.4	1.7	21.7	36.5	3.0	33.5	19.3	4.5	14.8
	1970	16.4	0.6	15.8	39.5	1.6	37.9	18.9	5.0	13.9
	1971	17.7	1.4	16.3	34.1	1.7	32.4	17.5	2.8	14.7
	1972	18.9	2.3	16.6	32.4	2.1	30.3	16.4	2.4	14.0
	1973	18.9	0.1	18.8	32.4	-2.6	35.0	16.5	2.4	14.1
	1974	15.1	-4.0	19.1	29.0	12.8	37.8	15.4	3.4	12.0
	1975	15.7	-2.2	17.9	18.5	-2.5	21.0	13.7	2.4	11.3
	1976	17.3	1.0	16.3	20.3	-0.3	20.6	14.9	3.1	11.8
	1977	18.1	0.6	17.5	19.7	-0.7	20.4	14.6	2.4	12.2
	1978	17.5	0.3	17.2	21.4	2.8	18.6	14.6	3.1	11.5
	1979	15.4	-2.5	17.9	21.2	4.3	16.9	14.9	3.4	11.5
	1980	12.3	-2.5	14.8	20.8	1.0	19.8	13.0	3.1	9.9
	1981	12.4	2.5	9.9	20.8	3.6	17.2	11.6	4.5	7.1
	1982	10.0	5.8	4.2	19.7	5.4	14.3	11.6	3.5	8.1
		France			United Kingdom			Canada		
a) Gross operating surplus as a percentage of gross capital stock	1965- 1969	16.9	2.9	14.0	10.8	4.0	6.8	14.5	2.6	11.9
	1970	18.7	3.0	15.7	9.2	4.2	5.0	12.5	4.3	8.2
b) Long-term government bonds yield less the rise in consumer prices	1971	18.3	3.0	15.3	9.1	0.5	8.6	12.7	4.1	8.6
	1972	18.3	1.9	16.4	9.3	2.8	6.5	13.7	2.5	11.2
c) Preliminary estimates	1973	18.3	1.8	16.5	9.2	2.6	6.6	15.3	0.0	15.3
	1974	20.2	-2.4	22.6	6.3	0.8	5.5	15.8	-1.8	17.6
d) Gross operating surplus includes stock appreciation	1975	13.1	-1.5	14.6	5.5	-8.6	14.1	13.1	-1.7	14.8
	1976	13.0	1.0	12.0	5.7	-1.5	7.2	12.5	1.5	11.0
	1977	13.0	1.5	11.5	7.7	-2.7	10.4	11.4	0.7	10.7
e) France: 1967-1969	1978	13.2	1.2	12.0	7.8	4.6	3.2	11.9	0.4	11.5
	1979	13.8	0.5	13.3	5.9	0.1	5.8	13.4	1.2	12.2
	1980	...	...	...	5.1	-3.9	9.0	13.2	2.4	10.8
	1981	...	...	...	4.1	3.7	0.4	12.7	2.9	9.8
	1982	...	...	...	4.3	4.9	-0.6	10.1	3.3	6.8

Source: OECD, Economic Outlook, No. 33, July 1983.

adoption of measures that are not clearly established in every case and may vary for political reasons. Thirdly, profits on manufacturing activity continue to be low, especially in several of the industrialized countries.^{25/}

2. Recovery in the centres

Table 29 summarizes the projections formulated by the United Nations, OECD and UNCTAD with respect to the possible economic growth of the market-economy developed countries, for the period 1983-1984.

The projections suggested growth rates for the GNP of the market-economy industrialized countries in the aggregate which hovered between 1% and 2% in 1983 and between 3% and 4.5% in 1984. For the seven leading industrial economies, the aforesaid projections estimated a 2% growth rate in 1983 and one of 3.5% in 1984. In the case of the United States, the range was higher: between 2.5% and 3% for 1983 and between 4% and 4.5% for 1984. The figures indicated by the projection for Japan were approximately 3% for 1983 and 3.5% for 1984.

In comparison with these projections, the available data show discrepancies which it is needful to note.^{26/} The average annual growth rate of the OECD economies in the aggregate would seem to have been 2.25% in 1983, while in the seven leading members it was 2.5%. These overall figures mask disparities in the behaviour patterns of the main members of OECD. Europe's recovery is weak, and its average annual growth rate does not seem to have risen above 1% in 1983. In contrast, the United States apparently experienced an average annual rate of expansion of 3.5%. Estimates of the effective performance of the Japanese economy in 1983 place its growth rate at about 3%.

As can be seen, the main source of the discrepancies between the projections quoted and real results in 1983 lies in the vigorous recovery of the United States economy.

3. The impact of economic recovery on world trade

The UNCTAD projections forecast increases of 0.8% and 5% in the volume of OECD imports during the years 1983 and 1984, respectively. In the case of North America -the United States and Canada-, the projections set the growth rates of the volume of imports at 5% and 9%, respectively, during those two years.

When the foregoing projections are compared with available estimates of real performance, OECD imports will be seen to have expanded, in terms of volume, by 3.25% during 1983. This expansion, however, took place within OECD itself and basically corresponded to manufactures from that market of origin. In contrast,

Table 29
DEVELOPED MARKET ECONOMIES: ANNUAL GROWTH RATES OF
REAL GROSS NATIONAL PRODUCT

	1975- 1980	1976- 1980	1980	1981	1982	1983	1984
1. All developed market economies							
United Nations	-	3.5	1.2	1.2	-0.3	2.0	3.0
OECD	-	-	-	-	-4.1	1.0	4.5
UNCTAD (1975-1980)	3.4	-	-	1.3	-0.2	2.0	3.2
2. Leading industrial countries ^{a/}							
United Nations	-	3.6	1.0	1.2	-0.4	2.0	3.5
OECD	-	-	-	-	-0.3	2.0	3.5
UNCTAD	-	-	-	-	-	-	-
3. United States							
United Nations	-	3.7	-0.4	1.9	-1.7	2.5	4.0
OECD	-	-	-	-	-1.7	3.0	4.5
UNCTAD	3.6	-	-	1.9	-1.8	3.0	4.5
4. Germany							
United Nations	-	3.6	1.8	-0.2	-1.1	1.0	3.0
OECD	-	-	-	-	-1.1	0.5	1.75
UNCTAD	3.6	-	-	-0.2	-1.1	0.5	1.8
5. United Kingdom							
United Nations	-	1.5	-1.8	-2.2	0.5	2.0	2.0
OECD	-	-	-	-	1.2	1.75	2.25
UNCTAD	1.6	-	-	-2.2	1.2	1.8	2.0
6. Japan							
United Nations	-	5.0	4.8	3.8	3.0	3.0	3.5
OECD	-	-	-	-	3.0	3.25	3.50
UNCTAD	5.1	-	-	3.0	3.0	3.2	3.5

Source: 1. United Nations, World Economic Survey 1983, E/1983/42, ST/ESA/131;

2. OECD, Economic Outlook, No. 33 July 1983;

3. UNCTAD, Trade and Development Report, 1983, 3 August, 1983.

^{a/} Federal Republic of Germany, Canada, United States, France, Italy, Japan, United Kingdom.

/the volume

the volume of the OECD countries' imports from the rest of the world, according to available data, declined by about one percentage point. United States imports increased in terms of volume by 7.5% during 1983. This expansion was especially apparent in the second half of 1983 and data on the origin of these purchases are lacking as yet.

In international conditions of free trade, exchange stability and relative financial normality, the internal dynamism of the major industrial centres -in particular the United States- would be the main factor influencing the expansion of world trade. But this correlation is significantly distorted by the conditions prevailing in the present economic scenario, especially where Latin America is concerned. It is especially worth while to note that the chief impact of the United States economy on the dynamism of the world product and of world trade does not derive precisely from its own internal economic dynamism; the evolution of the American economy affects the dynamism and directions of world trade much more powerfully through its influence on the international financial and monetary system. Thus, the high interest rates tend to dim the industrial economies' prospects of recovery and growth and indirectly affect the overall volume and growth of their imports. Similarly, the reduction of Latin America's imports, stemming from its present high degree of indebtedness, is partly an indirect consequence of recent international financial trends, which are strongly influenced by the behaviour of the United States economy in this field. In the monetary sphere, moreover, the overvaluation of the dollar largely accounts for the increase in United States purchases from the rest of the world and particularly from the OECD countries. Basically, this monetary and financial evolution, by discouraging international levels of activity and development prospects, darkens the short- and medium-term outlook for world trade and distorts the competitive position of the American economy itself in the international market. Much the same thing occurs with the familiar protectionist measures associated with current managed trade and counter-trade practices.

In any event, the direct influence of the United States' imports on the rest of OECD cannot be overlooked. Nor is it negligible in the case of Japan, since almost 30% of the latter's total exports are dispatched to that market. On the contrary, the recovery of the United States' imports would not appear to do much to stimulate the European economy, which sends only 7% of its total exports to the country in question.

It must also be recalled that between 60 and 70% of Latin America's exports are shipped to the OECD countries. In particular, approximately one-third of the region's total exports is absorbed by the United States and about one-fourth by Western Europe; Latin America's exports to Japan do not exceed 5% of its total sales.

The insufficient economic recovery of the OECD countries in the aggregate and the contraction in the volume of their imports from the rest of the world particularly affected Latin American exports throughout 1983. The fall in the prices of the region's exportable products meant that in that same year the value of exports of merchandise slightly decreased despite the fact that their volume rose by 7% in the case of the region as a whole and by 9% in that of the non-petroleum-exporting Latin American countries.

4. Prospects for regional economic reactivation

Reactivation in the centres should have a positive impact on the economic recovery of Latin America, if it were reflected in a substantial increase in the region's capacity to import. But debt servicing will continue to swallow up an unusually high proportion of the purchasing power of exports. In interest payments alone, the non-petroleum-exporting Latin American countries as a whole tied up 46% and 39% of their export earnings in the years 1982 and 1983, respectively, the corresponding percentages for Argentina being 54.6% and 51% and for Brazil 57% and 43%. In the same period, Mexico, too, a petroleum-exporting country, had to use 43.5% and 35.5% of its export earnings for interest payments.

Obviously, however, Latin America needs to achieve a substantial increase in its capacity to import in order to struggle out of the depression in which it is sunk. There are only three possible sources of such an increase: an expansion of exports, a reduction of reserves or an increase in borrowing.

The rate at which exports would need to expand as from 1984 in order to cover at one and the same time debt servicing and the imports required to bring about a vigorous reactivation of our economies is disproportionately high in relation to the projections that can reasonably be handled for the next few years. Obviously, too, a further drain on the already diminished reserves could not be the basic means of substantially expanding Latin American imports. Nor does the sharp contraction in financial flows from the international private banks conduce to cherishing much hope of large additional credit flows for the region. The net inflow of capital, which had been US\$ 38 billion in 1981, dwindled in 1982 and 1983 to US\$ 16.6 and US\$ 4.5 billion, respectively. Moreover, in 1982 and 1983, respectively, the region surrendered US\$ 37 and US\$ 34 billion under the head of net payments of profits and interest. In short, during the said two-year period, Latin America showed a negative figure for real available net financing - a net outflow of financial capital - amounting to US\$ 40 billion. Up to now there is no sign of the official intergovernmental financial agencies, adopting measures to counteract, significantly and on a sufficient scale, a situation of this type. In the light of these facts, the options open to Latin America are that of tackling serious obstacles to achieve a growth that will at least prevent the continuance of the present deterioration in average levels of living, or, alternatively, that of negotiating mechanisms whereby it can considerably increase the flexibility or alleviation of the financial commitments it has already contracted.

Hitherto the specific ways in which an answer to this burning question could be negotiated have not been clearly defined, but a solution seems indispensable to prevent worse evils. On the one hand, the very stability of the international financial system is at stake, and, on the other, the political stability and social imperatives of Latin American development. Meanwhile, the increasing protectionism of the centres does much to stifle the regional economy still further, and the restrictive conditions imposed by IMF point to the path of economic depression as the highway to "adjustment". This behaviour on the part of the centres and of the financial institutions, both public and private, reveals insufficient understanding of the extreme seriousness of the region's economic situation, as well as evasion of the share of responsibility incumbent upon them in respect of Latin America's present financial circumstances.

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In face of this state of affairs, Latin America must diligently seek out ways and means of regional co-operation and integration, with a view to increasing its reciprocal trade, saving foreign exchange and thus conserving the minimal bases of its economic security, while aiming at enhancing its bargaining power at the international level. Similarly, the strengthening of co-operation and integration must stimulate a regional economic development increasingly based upon Latin America's own productive and purchasing power -issues which are discussed in the second chapter of the present document.

II. REGIONAL INTEGRATION AND CO-OPERATION

A. REGIONAL INTEGRATION AND CO-OPERATION IN DEALING WITH PROBLEMS OF DEVELOPMENT AND INTERNATIONAL INSERTION

1. Development, industrialization and economic integration

The current situation in Latin America would seem to call for a recapitulation of the main lines of reasoning which establish a structural link among the concepts of development, industrialization and integration. In a generic sense, from an economic perspective development represents, inter alia, a quantitative increase and a qualitative diversification of the mean productivity of labour. This process is based on the systematic introduction of technological progress by means of the accumulation of producers' capital and workers' skills. The primary driving force behind the diversification of production has been the expansion of the manufacturing industry; industrialization is therefore the essential basis for the dynamism and continuity of economic development.

Although this is not the proper place for an in-depth discussion of the subject, the concept of development is not confined to an economic sense, but also includes social and political facets. The dynamism of productive power is not enough. Recent history shows that Latin American economic development has not satisfactorily fulfilled the goals of equity in the social sphere and autonomy in the international sphere.

Moreover, an examination of the effects of market expansion and the diversification of production demonstrates that the concepts of development and industrialization are related to the idea of integration.

Economic integration of different political units tends to remove the barriers which hinder reciprocal trade, while it also tends to result in the adoption of joint positions by these units in their trade relations with the rest of the world. The formation of a common market is a goal which would put these aspirations into practice. Integration promotes the industrialization process by providing opportunities for taking advantage of the economies of scale of an expanded market and through the specialization and complementarity of production, which increase the efficiency and output of processes within a context of growth dynamics that should include all the parties concerned.

Moreover, the industrialization of each of the participating countries is a necessary and decisive prerequisite for promoting an integration process over the long term because of the obvious and direct relationship between the diversification of production and the creation of trade opportunities. This latter relationship -between industrialization and integration- is a factor which must be taken into account in envisioning the obstacles to integration among economies of varying degrees of diversification as regards their domestic production. Thus, there are situations which encourage neither the creation of trade opportunities nor, therefore, the process of integration, as is the case when the level of

/diversification in

diversification in the productive systems concerned is very low or when great differences exist as regards the level of development and size of the member countries of an integration scheme. In such cases the mere suppression of tariff barriers will not produce a rapid and equitable expansion of trade among the parties concerned unless it is accompanied by measures to provide protection and incentives for the countries with less productive potential which, for that very reason, have more limited trade opportunities. In short, all other things being equal, the best prospects for economic integration exist when it is undertaken by countries whose economies are at comparable levels of industrialization and when those nations apply strategies which are clearly aimed at making substantive progress in diversifying and developing the system of production.

The linkage among this trilogy of concepts -development, industrialization and integration- can also be expressed at a less abstract level which is historically more meaningful for the economies of Latin America. The role which fell to Latin America in the international economic relations which grew out of the industrial revolution was that of an element of the periphery which exports commodities to the world industrial centres. The specialization of the Latin American economies in commodities -and, generally, in a single export product- which were then processed by the centres placed severe constraints on reciprocal trade among them. Moreover, the asymmetrical structure of trade with the central countries, involving the exchange of merchandise with different demand elasticities with respect to both earnings and price, produced a systematic deterioration in the terms of trade for commodities in comparison to manufactures. This, in turn, placed the Latin American economies in a position where they suffered from chronic deficits and indebtedness. Given this structural framework, the liberalization of trade between the centre and the periphery was an unsurmountable obstacle to the diversification of production in the latter.

The difficulties encountered in international trade as a result of the two world wars and the crisis of the 1930s encouraged industrial diversification in some Latin American economies, which were aided by this unplanned stimulus. Later on, the growth of the manufacturing sector was boosted by a strategy of industrialization through import substitution, which was essentially based on the satisfaction of domestic demand in each individual country.

When the industrialization of the Latin American economies reached certain thresholds, the conditions necessary for an intensification of reciprocal trade and, hence, for the promotion of joint economic integration began to come into being.

The common desire for integration resulted in a programme for the gradual reduction of tariff barriers, which originated in LAFTA and CACM.

The structural backdrop which enabled Latin American integration to move forward beginning in the 1960s, however, was the previously-attained diversification of production. In other words, advances in integration do not come about solely as a result of market decontrol if the degree and pace of the reciprocal diversification of production do not facilitate an increasing expansion of trade.

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In the long run, what promotes integration is not the unrestricted relaxation of tariff barriers, but rather efforts to broaden productive structures and to have them complement one another on a co-ordinated basis.

On the other hand the Cartagena Agreement, which gave rise to the Andean Pact, was a manifestation of the inadequacy of the Montevideo Treaty of 1960, as far as guaranteeing an equitable distribution of the fruits of the integration process. This fact illustrates another determinant of integration, in that it is conceived of not only as the outcome of market liberalization, but also as an advanced stage reached by economies whose level and pace of development are relatively compatible with the effects of reciprocal trade. Seen from this latter perspective, integration is the result of a concerted effort to proceed as a unit along the path of development, while aiding the weakest members to speed up their domestic diversification process. Thus, when Latin American development is considered from a structural standpoint, economic integration is a powerful joint policy tool.

Arguments in support of regional co-operation and integration should be part of a long-term perspective which entails an acknowledgement of the need to rectify the peripheral position of Latin America in the world economy and to promote industrialization as the pivotal point of economic development. In like manner the integration process, set within this expanded economic scope, should serve as a sort of "launching pad" for exports of Latin American manufactures to the market of the centres. These ideas took on a more and more definite shape during the course of the 1960s, and it was during this period that most of the existing subregional integration schemes in Latin America were instituted and promoted.

2. Latin American indebtedness and the integration crisis

Unlike what occurred in the 1960s, the integration process ran into various types of difficulties beginning in the 1970s, both with respect to its specific machinery and its institutional structures. Although an in-depth consideration of the many specific elements which had an influence in this respect is certainly necessary, there are at least two factors of a general nature which, beginning in the mid-1970s, began to disturb the growth of intra-regional trade and which detracted from the effectiveness of the machinery and instruments being used.

The first and foremost factor, as noted in chapter I of this study, was the change in the world structure of finance represented by a preponderance of private credit, which was made available in great quantities and was very readily granted. This financial permissiveness originated out of the large surpluses of the oil-exporting countries. The tendency towards trade deficits characteristic of the Latin American countries thus ceased to entail the proverbial external constraints which, given the lack of foreign exchange, made it necessary to reduce imports. The flow of external credit made a sharp expansion of imports from all points of origin possible; in some cases, this took the form of a tendency to lift restrictions on trade and to open up markets to merchandise coming from outside Latin America while, in other cases, State procurement and the purchase of some types of capital goods and intermediate inputs tended to increase.

/These propensities

These propensities weakened the growth of intra-regional trade and, in some instances, gave rise to competition which was disadvantageous for Latin American manufactures within the domestic markets of the producer countries.

Another factor in these events was the prevailing confidence in the dynamic development of the world economy and in the ample prospects for the growth of Latin American exports to the centres over the long term. However, the restrictive economic policies followed by the industrialized countries in order to fight inflation exacerbated the world economic recession and radically changed the economic picture of Latin America. The decrease in exports earnings and the rise in interest rates dealt a sudden blow to expectations of continued growth based on indebtedness.

Underscoring the phenomenon of indebtedness is to do nothing more than make a general reference to a feature shared by a number of economies in the region. Clearly dissimilar development strategies and forms of carrying them out underlie this characteristic. Considerable differences exist among the economic evolution of the large, medium-sized and small countries which are more heavily indebted at a regional level, as shown by some indicators in table 30. In late 1983, the countries with the largest external debt in the region were, in descending order, Mexico, Brazil, Argentina, Venezuela and Chile. However, if the ten countries accounting for 95% of the region's overall debt are taken as a sample and if the criterion used is the per capita external debt rather than the debt in absolute terms, the ranking is then, in descending order of indebtedness, as follows: Venezuela, Chile, Argentina, Uruguay, Costa Rica, Mexico, Ecuador, Brazil, Peru and Colombia.

Of those ten countries Argentina, Costa Rica, Chile, Peru and Venezuela experienced a decrease, in absolute terms, in their per capita gross domestic product between 1974 and 1983. At the same time, in 1982 Chile and Costa Rica were the countries which had the lowest total fixed gross rate of investment as a percentage of the gross domestic product, at 1970 prices. Venezuela constituted a special case, in that it was the country with the largest proportion of its gross domestic product devoted to gross fixed investment in that same year. Another interesting indicator of how export earnings and external credits are spent on the importation of goods is the percentage breakdown of those imports. Table 30 shows that Brazil and Uruguay -both net oil importers- had to devote over half, in the case of Brazil, and nearly 43%, in the case of Uruguay, of their external resources to paying for those imports in 1982. Of the remaining countries in the sample, Costa Rica, Argentina and Chile had a low proportion of capital equipment imports, which fits in with their low rates of fixed gross investment.

Lastly, during the 1974-1982 period the industrialization process -measured as the percentage of the gross domestic product represented by the manufacturing industry- declined sharply in Chile and Argentina, showed smaller decreases in Brazil, Colombia, Mexico, Peru and Uruguay, and increased only in Ecuador, Costa Rica and Venezuela.

In sum, a brief review of the characteristics of each of the main Latin American debtor countries reveals very different situations as regards international insertion as well as the possible domestic causes and effects of the high level of indebtedness. Thus, although a development process based on external borrowing

Table 30

LATIN AMERICA: EVOLUTION OF THE EXTERNAL DEBT AND OTHER ECONOMIC INDICATORS IN SELECTED COUNTRIES

	Argentina	Brazil	Colombia	Costa Rica	Chile	Ecuador	Mexico	Peru	Uruguay	Venezuela
1. Total external debt (year-end balance for 1983 in millions of dollars)	42 000.0	83 000.0	10 300.0	3 050.0	17 600.0	6 200.0	85 000.0	10 600.0	4 250.0	30 000.0
2. Total external debt (per capita, 1983)	1 494.0	632.0	359.0	1 284.0	1 507.0	705.0	1 112.0	555.0	1 475.0	1 922.0
3. Per capita gross domestic product at market prices (millions of dollars at 1970 prices)	1 342.0	748.0	705.0	878.0	927.0	607.0	1 115.0	705.0	1 114.0	1 251.0
Growth rate 1974-1983 (percentage)	1 166.0	908.0	816.0	801.0	916.0	729.0	1 391.0	683.0	1 281.0	1 197.0
4. Total gross fixed investment as a percentage of the GDP (1970 prices)	-1.5	2.2	1.6	-1.0	-0.1	2.1	2.5	-0.4	1.6	-0.5
	1974	1974	1974	1974	1974	1974	1974	1974	1974	1974
	1982	1982	1982	1982	1982	1982	1982	1982	1982	1982
Composition of imports of goods	19.3	24.7	17.0	21.5	12.8	15.3	21.0	20.2	8.6	25.4
1974 Total (millions of dollars)	17.0	20.6	17.8	13.2	9.4	15.6	21.1	16.4	15.6	30.4
1982 Total (millions of dollars)	3 635.0	12 634.0	1 788.0 ^a	720.0	2 013.0	875.0	6 057.0	1 908.0 ^a	487.0	3 876.0
Composition	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Consumer goods	3.7	9.1	10.6	23.6	31.8	14.9	12.0	8.1	7.6	11.4
Intermediate goods	69.9	44.4	55.0	43.6	33.7	45.8	50.4	38.4	52.8	66.3
Capital goods	11.9	25.5	32.8	22.8	13.9	34.6	32.3	32.0	6.5	22.3
Fuels and lubricating oils	14.5	20.3	0.4	10.0	20.6	4.4	5.2	9.8	33.1	-
1982 Total (millions of dollars)	5 350.0	19 397.0 ^a	6 095.0 ^a	907.0	7 368.0 ^b	1 988.0	15 122.0	3 787.0 ^b	1 058.0	5 532.0
Composition	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Consumer goods	6.9	5.2	17.4	18.0	37.6	11.2	10.0	13.4	9.4	23.5
Intermediate goods	61.9	24.0	34.1	52.7	30.0	44.8	55.6	34.4	34.4	34.8
Capital goods	18.7	16.8	36.8	17.1	19.6	27.7	29.8	38.9	13.6	41.2
Fuels and lubricating oils	12.5	53.9	10.6	11.1	12.6	1.4	-	-	42.6	0.5
Manufacturing as a percentage of the GDP (factor cost at 1970 prices) 1974	28.4	29.0	18.8	17.2	25.6	17.9	23.6	21.6	22.1	15.3
1982	22.3	27.1	16.4	17.7	19.1	21.4	23.3	19.1	19.8	15.9

Source: ECLA, Economic Survey of Latin America, 1975, 1977, 1978, 1980, 1981 and 1982; ECLA, "Preliminary overview of the Latin American economy during 1983"; ECLA, on the basis of official figures.

Note: The figures for 1982 and 1983 are estimates.

did take place, it would be more accurate to speak in terms of the very different courses of economic action which encountered an unexpected latitude and extremely favourable terms in the private external financial sector. The future domestic effects of their indebtedness will partially depend upon the countries' respective structures of production, in connection with both the substitution of the imports which they will no longer be able to acquire and increasing efforts to diversify exports.

In some of the Latin American countries, the process of indebtedness was accompanied by concerted attempts to diversify and strengthen the domestic structure of production. In others, the opening up of trade and, with it, the competition of imported products weakened, disjointed and even dismantled part of the pre-existing industrial apparatus. In a third group of countries, indebtedness -paradoxically- soared in response to their favourable position in the world oil market; in some cases, this was the result of an increase in oil prices by the traditional exporters and, in other cases, was due to the discovery of new potential oil reserves which, by giving rise to a solid export position, accentuated the exaggerated easy-credit attitude of the private international banking system.

At the beginning of the 1980s, all these countries were surprised by the abrupt change in international economic conditions, when the interest payments on their debts rose sharply and their export earnings plummeted. Now that the fleeting and artificial financial boom has ended, they must once again rely on their domestic productive capacity to increase their exports, which is the only real way to sustain their import capacity over the long term. Future trends relating to the extent and duration of the world recovery are uncertain.

On the other hand, the severity of Latin American indebtedness is a phenomenon which is specific to the region among the peripheral economies. In this case, the economic recovery of the centres is one, but not the only, pre-requisite for a regional economic recovery. Stable solutions need to be found to the debt problem, which poses a decisive obstacle to the resumption of regional economic development. Whatever the future terms for Latin American borrowing may be, the guidelines for a possible and desirable strategy hinge, on the short term, on the strengthening and protection of domestic production by means of a recovery which will reduce the high unemployment levels and, on the long term, by speeding up the rate of capital formation, based on domestic savings and on the utilization of the region's own capacity to produce these goods. There will undoubtedly be greater restraint in the use of the international means of payment and an attitude of greater austerity with respect to consumption, above all in view of the need to provide domestic financing for future investment efforts.

The development and consolidation of the sectors of production must also once again be given priority, particularly in the case of industry -which, as may be seen in table 30- has suffered to an unusual extent in most of the countries from the effects of the economic crisis and of the policies designed to open up trade.

In this new international setting, Latin American co-operation and integration emerge as very valuable means of reviving the Latin American economies in the immediate future and of brightening, at least to some extent, the dim prospects for its development over a longer period. In order for this to happen, it is urgent to revitalize and adjust the co-operation and integration instruments which are already in force in order to adapt the services they can render as fully as possible to the current emergency and to long-term development prospects, given the logical correlation and interdependence which exist among development, industrialization and economic integration.

B. AN OVERVIEW OF INTEGRATION AND CO-OPERATION 27/

1. Background

Since the mid-1970s, Latin American and Caribbean integration and co-operation schemes have been subject to considerable tensions and challenges, and these have become substantially greater during the last three years. Thus, although the degree of regional interrelation has generally been increasing and has been manifested in numerous initiatives which have recently come into being, the pace at which these new linkages are being developed is slow and oftentimes is subject to political instability and conflicts.

On the other hand, intra-regional trade -which is an important indicator of the degree of interdependence among the countries in the region- declined in absolute terms in 1982, not only with respect to the preceding year, but also in relation to 1980 (see table 31). Even though overall exports declined, the drop in intra-regional exports was proportionately greater. This affected all the integration schemes, namely: the Latin American Integration Association (ALADI), the Andean Group and the Central American Common Market (CACM). The only exception was the Caribbean Community (CARICOM), in which subregional exports rose more than global exports. The decline in intra-regional trade is in large measure a reflection of the fact that efforts to consolidate the increasing linkages among the member countries of the integration schemes have had to give ground as a result of the international crisis and of national situations where there has been little co-operation with other countries of the region.

Some major features of the way in which the integration processes have evolved should be highlighted. For example, despite the fact that the Andean Pact has faced a variety of problems (trade restrictions in most of the member countries and geopolitical tensions between two of them), it has been able to maintain political support at the highest level for the integration process. In the Andean Group's relations with the other ALADI countries, however, disturbing situations have arisen.

The decline in the multilateral character of the negotiations on the tariff preferences of the Patrimonio Histórico and the scant progress made in the Joint Committees with Argentina, Brazil and Mexico were thus indicative of a loss of dynamism in the Andean Group's relations with the other Latin American countries. These symptoms, although they may well be the result of the current conditions in most of these countries' economies, should be taken into consideration in efforts to extend the integration process to all of Latin America and the Caribbean.

In addition, the Central American Common Market is confronting a well-known political and economic crisis. In spite of this, it has been able to maintain the basic structure of integration which, under prevailing conditions, is a significant testimony to the cohesiveness of the process and of its great importance to the economies of the Central American countries. Simultaneously, relations with the rest of Latin America have acquired increasing significance. The partial agreements signed pursuant to the Montevideo Treaty of 1980 among some Central American

Table 31

LATIN AMERICA: EXPORTS WITHIN INTEGRATION SCHEMES, WITHIN LATIN AMERICA AND TOTAL

(Millions of dollars at current prices, fob)

											Growth rates		
	1960	1965	1970	1975	1978	1979	1980	1981	1982 ^{a/}	1960-1970	1970-1980	1960-1980	
<u>ALADI</u>													
Total exports	7 544.8	9 369.7	13 766.7	29 664.2	44 630.1	60 729.0	79 569.1	87 040.9	80 759.0	5.7	20.0	12.7	
Exports to Latin America	-	-	1 583.5	5 031.2	7 174.3	10 011.8	11 962.5	14 156.8	11 637.8	...	22.0	...	
Percentage of exports, Latin America/total	-	-	12.4	17.0	16.1	16.5	15.0	16.3	14.4				
Exports within ALADI	566.6	841.9	1 266.0	4 010.2	5 838.4	8 574.6	10 879.3	11 913.2	9 720.0	8.4	24.0	15.9	
Percentage of exports, ALADI/total	7.7	9.0	9.9	13.5	13.1	14.1	13.7	13.7	12.0				
Percentage of exports, ALADI/exports, Latin America	-	-	79.9	79.7	61.4	85.6	90.9	84.2	83.5				
<u>Andean Group b/</u>													
Total exports	3 585.3	4 346.0	5 419.1	12 897.8	16 293.4	23 937.5	30 064.5	29 738.9	26 637.7	4.2	15.8	11.2	
Exports to Latin America	-	-	369.0	2 055.3	2 404.2	3 412.9	3 922.6	4 854.0	4 190.5	...	21.0	...	
Percentage of exports, Latin America/total	-	-	10.5	15.9	14.3	14.3	13.0	16.3	15.7				
Exports within the Andean Group	34.7	2.7	91.6	477.1	684.5	1 035.1	1 192.0	1 195.3	1 272.6	14.1	29.0	31.9	
Percentage of exports, Andean Group/total	0.7	0.6	1.2	3.7	4.2	4.3	4.0	4.0	4.8				
Percentage of exports, Andean Group/exports, Latin America	-	-	16.1	23.2	28.5	31.5	30.1	24.6	30.4				
<u>Central American Common Market</u>													
Total exports	444.2	762.5	1 105.4	2 309.4	3 974.0	4 462.9	4 942.5	4 299.2	4 133.7	9.5	16.2	12.8	
Exports to Latin America	-	-	313.7	645.9	965.7	1 036.2	1 172.0	1 260.4	1 006.0	...	14.1	...	
Percentage of exports, Latin America/total	-	-	28.4	28.0	24.3	23.2	23.7	29.3	24.3				
Exports within the CACM	30.9	132.3	287.1	541.3	862.8	898.7	994.3	972.3	788.0	25.0	13.2	19.0	
Percentage of exports, CACM/total	7.4	17.4	26.0	23.4	21.7	20.1	20.1	22.6	19.1				
Percentage of exports, CACM/exports, Latin America	-	-	91.5	83.8	89.3	86.9	84.8	77.1	78.3				
<u>CARICOM c/</u>													
Total exports	543.7	750.2	1 000.1	3 025.5	3 190.2	3 908.1	5 498.4	5 113.0	4 506.4	6.3	18.6	12.3	
Exports to Latin America	-	-	63.2	259.7	297.6	439.6	593.9	677.0	701.6	...	25.0	...	
Percentage of exports, Latin America/total	-	-	6.3	8.6	9.3	11.2	10.8	13.2	15.6				
Exports within CARICOM	21.3	27.1	42.3	216.8	204.7	255.7	352.5	372.9	368.8	7.1	24.0	15.1	
Percentage of exports, CARICOM/total	3.9	3.6	4.2	7.2	6.4	6.5	6.4	7.2	8.2				
Percentage of exports, CARICOM/exports, Latin America	-	-	66.9	83.5	68.8	58.2	59.4	55.1	52.6				
<u>Latin America d/</u>													
Total exports	8 532.5	11 518.6	15 212.2	36 182.8	52 712.2	70 265.6	91 325.7	97 956.8	90 546.2	6.0	19.7	12.6	
Intra-regional trade	749.9	1 275.3	1 969.7	5 964.8	8 536.5	11 583.3	13 882.9	16 227.9	13 435.0	10.1	22.0	15.7	
Percentage, intra-regional/total	8.8	11.1	12.9	16.5	16.2	16.5	15.2	16.6	14.8	...	1.6	...	

Source: ECLA, on the basis of official figures.

a/ Preliminary figures.

b/ Excluding Chile.

c/ Including Barbados, Guyana, Jamaica and Trinidad and Tobago only.

d/ Including 11 ALADI, 5 CACM, and 4 CARICOM countries, Panama and the Dominican Republic.

countries and a number of ALADI countries (Argentina, Brazil, Chile, Mexico) constitute an important event. It is not venturing too far to envision a future connection between the Central American Clearing House and the ALADI Agreement on Reciprocal Payments and Credits, and perhaps the Santo Domingo Agreement as well. Work is undertaken jointly in the areas of fisheries, sugar, fertilizers, food security, handicrafts, etc., through the SELA Action Committees or the pertinent organizations (GEPLACEA, MULTIFERT). On the other hand, sufficient progress has not been made in increasing the links between Central America and the English-speaking countries of the subregion. The results in this area within the framework of SELA have instead been rather modest, and the ALADI Latin American clause has still not been applied in these countries. Co-operation activities in the field of hydrocarbons which are being carried out by OLADE are a bright spot in this picture.

The meetings organized by SELA in order to co-ordinate the activities of regional integration and co-operation bodies is an important step towards improving mutual understanding and exploring possibilities for joint initiatives. Greater reciprocal utilization of the technical capacities and the experience gained by the various organizations responsible for integration and co-operation is essential if a real convergence of these processes within the region is to be attained.

For its part, ALADI has required much more time than had been envisioned in order to enter into actual operation. This fact not only compromises the very process of integration among the ALADI member countries, but also affects all the regional co-operation initiatives, in view of the potential of the 1980 Treaty of Montevideo for serving as the legal cornerstone for this type of action with respect to all the countries of Latin America and the Caribbean.

The Caribbean Community (CARICOM) was the only scheme in which the exports among the member countries of the Community in 1982 decreased less than exports to other points. Nevertheless, this scheme too has been subject to a variety of political tensions and serious economic problems; these have, in part, been caused by the international economic crisis, which has had a strong impact on the relatively small countries of the Caribbean whose economies are open to foreign trade. In this respect, the Caribbean Basin Initiative, which was approved in late 1983 by the United States Congress, provides for potential benefits of interest to the CARICOM countries. There is, however, some uncertainty as to the ultimate effectiveness of the promotion measures which were announced since, in order to be a beneficiary of the Initiative, the countries must fulfil a number of requirements and must ratify a bilateral treaty with the United States.

The Latin American Economic System (SELA), for its part, commenced its activities with a large dose of pragmatism and political cautiousness, primarily as a result of the complexity of the problems it had to face and the heterogeneity of the countries belonging to the System. It has subsequently directed its efforts towards more ambitious and more global topics. The role of SELA in regional co-operation will undoubtedly be a vital one in connection with the conceptual orientation of the process, the achievement of cohesiveness among the various actors, and the encouragement of joint action by setting an example through the specific accomplishments of the Action Committees or joint Latin American

/enterprises. This

enterprises. This will require a great deal of perseverance in tasks whose results would appear to be modest in the short run, but which greatly contribute to the formation of a network of actual linkages among the Latin American economies.

Lastly, institutions are gradually being developed under the aegis of both governmental agencies and Latin American multinational entrepreneurial organizations, and increasing efforts are being made to consolidate them and give them stability. Two factors prevent the scope and dynamism of these initiatives from being greater. The first is that, as a general rule, political will is not translated into action as intensively as necessary and, moreover, budgetary resources are markedly insufficient. Secondly, there is very little co-ordination with the other agencies operating in the region. Some of the governmental organizations which are in this situation are the Latin American Fisheries Development Organization (OLDEPESCA), the Union of Banana Exporting Countries (UPEB), the Group of Latin American and Caribbean Sugar Exporting Countries (GEPLACEA) and, partially, the Latin American Energy Organization (OLADE) and its Latin American Energy Co-operation Programme (PLACE). Many Latin American multinational co-operation enterprises, for their part, have been left to their own resources when they have not yet evolved to a point where they would be adequately self-sufficient, and have had to provide services in connection with the joint development of the member countries which cannot be recovered through fees or market prices. Some such enterprises are the Naviera Multinacional del Caribe, S.A. (NAMUCAR), the Latin American Multinational Fertilizer Marketing Corporation, S.A. (MULTIFERT) and the Comercializadora Multinacional del Banano, S.A. (COMUNBANA).

In order to supplement this summary, the following sections of this chapter are devoted to a more detailed discussion of each one of the regional integration and co-operation schemes.

2. The Latin American Integration Association (ALADI)

a) The transition to ALADI

The Montevideo Treaty of 1980 created the Latin American Integration Association (ALADI), which replaced the 20-year old Latin American Free Trade Association (LAFTA). The fact that the new Association was designed to replace a scheme aimed at forming a free trade zone made a transition period necessary during which the member countries renegotiated what is termed the Patrimonio Histórico (legacy of the past), i.e., the set of concessions in force when the previous treaty ceased to have effect. During this period the new machinery constituting the area of economic preferences to be subject to the new treaty also had to be put into operation. The term of five months which was originally set for the completion of the negotiations had to be extended repeatedly, and finally ended on 12 May 1983 at the Fifth Special Session of the Conference of the Contracting Parties.

By late 1983, the partial agreements embodied in the new treaty were the following:

/i) Thirty-nine

i) Thirty-nine Partial Agreements, which were the outcome of the renegotiation of the preferences included in the Patrimonio Histórico. All of these are bilateral agreements, with the sole exception of Agreement No. 26, which sustains the multilateral link among Argentina, Chile, Paraguay and Uruguay.

ii) Twenty-three Commercial Agreements, resulting from the adaptation of the new legal instruments of the Industrial Complementarity Agreements which were concluded in accordance with the legal structure of LAFTA.

iii) Two Economic Complementarity Agreements, which are an adaptation of the bilateral treaties between Argentina and Uruguay and between Brazil and Uruguay, which are implicitly recognized within the framework of LAFTA.

iv) Two agreements supporting Bolivia, in accordance with resolution 24 of the Committee of Representatives.

In addition, three Regional Open Market Agreements are in effect which are designed to benefit the relatively less economically developed countries (Bolivia, Ecuador, Paraguay). This comes to a total of 69 agreements of widely varying scopes and coverage, which establish a complex network of tariff preferences among the member countries. Although over three years have passed since the signing of the 1980 Montevideo Treaty, it is still too early to assess the effectiveness and suitability of the new instruments because most of the preferences have been applied for only a very brief time.

Nonetheless, some comments may be made about the way in which the negotiation process has developed. The current treaty no longer provides for the quantitative targets and fixed terms laid down by the previous treaty, and is instead extremely flexible as regards modes of understanding and the terms for which agreements remain in force. Their multilateral character, which was the guiding principle of LAFTA, has been replaced by the mechanism of partial agreements, which are only binding upon the countries which sign them. As has been observed, this has resulted in a marked increase in the number of bilateral agreements, along with all the advantages and disadvantages inherent in this type of instrument. In point of fact, the agreements resulting from the renegotiation of the Patrimonio Histórico account for nearly two-thirds of the agreements signed to date and cover approximately 90% of all the products which have been subject to negotiations under the partial agreements.

The renegotiation of the Patrimonio Histórico led to the withdrawal of many of the concessions, most of which had very little immediate commercial potential, and to the inclusion of a small number of new concessions. In more than a few cases, the concessions are to remain in force for relatively short periods and import ceilings have been set. The scope of application of these concessions was thus restricted significantly, although they seemingly continue to bear some relation to the essential elements of the trade currently conducted among the parties concerned. On the other hand, the relative share of total trade represented by negotiated trade continues to decline, thus following a trend which began in 1968 and which became more marked during the final years of LAFTA.

The 1980 Montevideo Treaty provides for differential treatment according to the level of development of the beneficiary countries; its ultimate objective continues to be the establishment of a Latin American common market, to be achieved by gradually putting the partial agreements on a multilateral footing and by instituting a Regional Tariff Preference. The differential measures in connection with the relatively less developed countries are basically reflected in the Regional Open Market Agreements, although the partial agreements should, in principle, also include special measures for the benefit for those countries. The experience of LAFTA has shown that creating instruments for differential treatment which are applicable solely through non-reciprocal tariff concessions does not suffice, inasmuch as the relatively less developed countries lack an adequate supply of exportable products in order to take advantage of these opportunities. The ALADI Secretariat includes an Economic Promotion Unit which is specifically devoted to promoting opportunities for these countries to take advantage of the regional market. To date, this Unit has conducted numerous technical studies, but the effectiveness of the recommendations made in large part hinges on such complementary action as the financing of the proposed projects and the entry into operation of the Open Market Agreements.

During its brief existence, ALADI has not made significant progress in putting these commitments on a multilateral basis. The countries have concentrated their efforts on reaching bilateral agreements despite the fact that, in principle, all the partial agreements should "contain clauses which promote convergence in order that their benefits may be extended to include all the member countries" (article 9 of the Treaty). With the exception of the Open Market Agreements and what are known as the Commercial Agreements, which resulted from the adaptation of the former Complementarity Agreements, the strictly bilateral nature of the ALADI preferences has still not been superseded. A number of problems would have to be dealt with in putting these agreements on a multilateral basis, since the current preferences are highly specific and have been negotiated with the obvious intention of striking a certain balance between pairs of countries.

b) The recent development of trade

In 1981, the value of intra-zone trade increased less than the mean annual growth rate of nearly 13% for the 1960-1980 period. Nonetheless, in 1982 the world economic recession had a severe impact on the Latin American economies which, for the first time in the post-war period, experienced significant and widespread decreases in the gross domestic product as well as their total exports and imports. Trade within the same zone underwent an equally unprecedented slump in 1982, which was even more pronounced than the drop in total exports, once again falling below US\$ 10 billion, while its share in total exports decreased to 12% (see table 30).

The drop in imports has been even greater, due to the fact that the countries had to adapt to both the decline in exports and the paralyzation of external credit simultaneously. It is estimated that the total imports of the member countries fell from US\$ 92 billion in 1981 to US\$ 71 billion in 1982, which is a decrease of 23%. Preliminary data for 1983 indicate that the recession worsened in the region during that year, which means that the decline in the region's import capacity would be comparable to that of 1982.

/The difficult

The difficult economic situation being experienced by these countries is, without question, the primary cause of this setback in the trade within the zone, although the prolonged process of renegotiating the Patrimonio Histórico surely also contributed to creating an unfavourable climate for reciprocal trade. Indeed, since late 1981 the countries have been imposing increasing restraints on imports; these have taken many forms, but have basically been aimed at adjusting their economies to the balance-of-payments crisis. These restraints, which ranged from partial limitations to the total suspension of all imports, in most cases made no distinction between imports from within and from outside the zone, thereby affecting the two flows equally. This induced the affected countries to apply similar measures with the result that widespread trade restraints persist at the present time. The countries are attempting to remedy this situation by using new methods of trade, such as the various forms of countertrade, the more intensive use of existing systems for reciprocal payments and credits, the negotiation of temporary quotas, etc.

For the time being, there is no sign of a turnaround in this process of stagnation and retrogression, unless the countries come to an agreement concerning some basic measures designed to revive trade. Some of the most essential measures are a "standstill" agreement which would prevent new restrictions on trade, the application of an effective Regional Tariff Preference, measures to increase the financing for trade and the shifting of State purchases to the zone.

c) Financial co-operation within ALADI

Financial co-operation was one of the elements which functioned most successfully within the former LAFTA scheme. The Agreement on Reciprocal Payments and Credits has been in effect since 1966; later, in 1969, the Santo Domingo Agreement, which was created to deal with temporary balance-of-payments difficulties, was incorporated into this system. All the member countries, plus the Dominican Republic, are party to these instruments. They have thus far been able to function without serious difficulties because they offer tangible and equivalent benefits to all the participating countries and are based on a very simple system involving a minimum cost. With this as a background, and considering the countries' difficult external financial position, it is no wonder that both mechanisms were transferred over to the new ALADI without any major changes being made in their objectives. Lately a variety of ways to make them function even more effectively and comprehensively have been studied, particularly in the Latin American Conference held at Quito in January 1984.

The System of Reciprocal Payments and Credits has functioned very effectively since its inception. Over time, its operational methods have been perfected and it has been shown to have the ability to overcome the various difficulties which have presented themselves. In the course of its existence, up to and including the year 1982, it has channelled transactions of over US\$ 50 billion in value, with an average percentage of net debit balances to be paid of only 25%, which is equivalent to an overall savings of 0.75 in hard currency on each dollar of intra-regional trade. At the beginning of 1983, there were 62 open lines of credit out of a possible 66, totalling US\$ 2.5 billion.

/Transactions processed

Transactions processed by the System of Reciprocal Payments and Credits during 1981 amounted to nearly US\$ 9.3 billion, while in 1982 they were on the order of US\$ 6.5 billion. This decrease coincided with a decline, although a less pronounced one, in trade within the zone. In addition, an irregularity in the system that had first arisen in mid-1979 was repeated in 1982, when some central banks found it necessary to come to bilateral agreements on the payment or collection of the balances with the other central banks as a direct result of the difficult financial position in which most of the countries found themselves. In discussing these latter events, it should be borne in mind that the Agreement was designed in order to facilitate payments in the region and does not constitute a financing mechanism as such. Various solutions to the problem have been devised, ranging from an increase in the lines of credit -which has already been done- to an extension of the periods for clearing from four to six months and the creation of a contingency fund in order to cope with those situations in which there is a lack of liquidity.

Mention should also be made of the request made by the central banks of the five Central American countries to take part in the financial mechanisms of ALADI. This desire on the part of the Central American countries has been under consideration since early 1982 by the member central banks and by the Council and the Advisory Commission for Financial and Monetary Affairs of ALADI. There do not appear to be any legal obstacles to their participation, and the technical aspects are in the process of being resolved. Another possible measure on the medium term is the creation of a Latin American monetary unit.

With respect to the foregoing, it must be borne in mind that the countries will continue to face severe external financing problems in coming years, which will undoubtedly be reflected in restrictive import policies. In this context, a flexible clearing system, with a greater financial capacity and some built-in safety margins, can play an important role in promoting trade within the zone and, potentially, within Latin America.

Like the System of Payments, the Santo Domingo Agreement was transferred over to the legal structure of ALADI. Because of the worsening economic crisis, its original structure was augmented with two additional mechanisms, which entered into force in November 1981. Up to that point, the main pre-existing mechanism had been used 21 times since its creation in 1969, with a total of US\$ 260 million in credit having been drawn by the five member countries.

The second mechanism of the Santo Domingo Agreement was designed to finance global balance-of-payments deficits, and the "third window" was used to provide financing in situations where there was a lack of liquidity due to natural disasters. Since the time it entered into effect, the second mechanism has been used twice. On each occasion the other member central banks deposited a total of US\$ 32 million to the account of the requesting central bank. Obviously, the amounts involved are modest in comparison to the balance-of-payments disequilibria faced by the member countries. One possibility for increasing the financial capacity of this and other mechanisms is to resort to special contributions from the member banks or from other central banks.

/d) The

d) The regional tariff preference and other future spheres of action

Article 5 of the Montevideo Treaty of 1980 provides for the establishment of a Regional Tariff Preference, which the member countries "shall grant reciprocally ... with reference to the level applying to third-party countries". Resolution 5 of the Council of Ministers establishes the bases to which the mechanism will be subject. It provides, inter alia, that the Regional Tariff Preference "shall cover, insofar as possible, the entire scope of tariffs; it shall not entail the consolidation of duties and, through a programme for that purpose, non-tariff barriers shall be eliminated". Indeed, the Regional Tariff Preference is the only multilateral mechanism in the current treaty concerning which the countries obtained a definite commitment. The remaining trade agreements approved thus far, virtually all of which are bilateral, have been giving shape to a complex network of tariff preferences characterized by a high degree of individual designations and a measure of instability, which may make its practical management difficult for the parties concerned.

For the above-mentioned reasons it is important for the countries to reach an agreement concerning the establishment of the Regional Tariff Preference as soon as possible, inasmuch as it would be desirable for the member countries to exhibit at least a minimum of cohesiveness in the forums for trade negotiations outside the zone; the application of this multilateral instrument would undoubtedly increase the credibility of that image. Finally, the setback suffered by intra-zone trade in the course of the last two years (1982 and 1983) also lends urgency to the prompt establishment of a preference of regional coverage which, moreover, would involve a commitment to abolish non-tariff barriers among the parties.

A number of technical studies on the subject have already been conducted by the Office of the Secretary-General of ALADI, INTAL and ECLA, and the specific aspects of its adoption and application have been discussed in a like number of technical meetings and forums. Ultimately, it falls to the member countries to finalize this process of study and negotiation. A consensus exists as to the approval of a preferential tariff differential for non-member countries which are important to intra-regional trade.^{28/} There is a great diversity of ideas concerning the lists of exceptions, sensitive sectors and non-tariff restrictions. The great cautiousness demonstrated by the countries within ALADI concerning the regional tariff preference is striking, and is in contrast to the potential benefits of the Preference and to the greater openness shown by some countries in the recent past with respect to extra-zone competition. A Regional Tariff Preference which is truly effective in diverting trade from non-member countries and in creating regional trade, accompanied by adequate safeguards, seems to be a logical and desirable response to the current state of affairs.

Other areas being dealt with by the member countries, apart from financial co-operation, are State purchases and the various forms of administered trade. The subject of State purchases is discussed in another section of this study in a more global and regional context. It might be noted here that the Office of the Secretary-General of ALADI is interested in its potential for trade diversion. It is to be hoped that these and other efforts being made in other Latin American organizations will be successful in shaping an effective system for managing this enormous purchasing power in a way which will benefit regional producers.

/Administered trade,

Administered trade, which was virtually eliminated in the past by the gradual liberalization of world trade, is gaining ground in the current situation of growing protectionism in the centres and foreign exchange shortages. The countries are attempting to establish firm control over their imports in order to save foreign exchange at the same time that they are seeking to increase their exports in order to utilize their productive capacity better. Countertrade and other forms of administered trade may help to make some trade flows viable which, under normal circumstances, would probably not take place. In any event, it is important to be aware of the danger that these and other forms of trade may result in a type of commerce which is too limited and restrictive to compete with other countries and which could militate against the objective of establishing a multilateral free trade zone within the region. The possibility of intensifying trade and creating closer trade links with other countries of Latin America and the Caribbean should also be actively considered. The Montevideo Treaty of 1980, which created ALADI, expressly refers to such understandings; this faculty has already been used by Argentina and Mexico to negotiate bilateral trade agreements with various Central American countries recently. Finally, the Regional Tariff Preference was also designed so that, through an expanded process of negotiation, it would gradually include the other countries of the region.

The results of the Latin American Economic Conference at Quito afforded ALADI with a set of mandates and highly significant political support, thus making it possible to visualize ALADI as an organization of truly Latin American dimensions in the future.

3. The Central American Common Market (CACM)

a) Some special features of the member countries

The recent course of the Central American Common Market (CACM) should be considered in the light of a series of special features characterizing the group of member countries which, to a great extent, account for the current difficulties encountered by the process. Each one of the five member countries is small and has a low economic potential, which also affects the countries as a group, although to a lesser degree. Historically, their structures of production and export capacities have been much alike, which has caused their insertion in the world economy to be similar. All the countries have traditionally exported a few commodities, and this situation has not changed substantially.

These features, which -together with other characteristics- are reflected in the pronounced openness of their economies, have made the countries very sensitive to fluctuations in the international economy. This fact has once again been revealed in all its harshness during the current recession. Moreover, it must be remembered that these countries are relatively less developed than the Latin American norm, and have low income levels and a very uneven income distribution. The share of the product represented by industry remains small, although it has increased considerably since the 1960s.

/This unfavourable

This unfavourable situation for individual development induced the countries to make an active effort to integrate their economies. Indeed, the CACM was the first integration scheme established in Latin America. (The Central American Integration Treaty dates back to 1961, but the first attempts at integration were made a decade earlier.) It was also the process which made the most progress, if this is judged by the degree of integration of its foreign trade and production. This was achieved primarily during the first ten years of its existence as a result of the virtually complete relaxation of restrictions on intra-subregional trade and the application of a common external tariff since the very beginning. The decisive role which the integration process has played in promoting industrialization has resulted, inter alia, in the great preponderance of manufactures in intra-subregional trade, whereas it represents an extremely small part of exports to the rest of the world (91.0% and 30.5%, respectively, in 1980).^{29/}

In short, the integration process is a natural solution for these economies, which are both small and highly vulnerable to the exterior. Thus, Central American integration has made great strides, but has also experienced difficulties to such an extent that they have arrested its progress in recent years.

b) The course of the integration process

The Central American Common Market has had some very successful years, particularly during the first decade of its existence. The liberalization of trade, which was achieved almost immediately, led to a great boom in intra-subregional trade, which increased from US\$ 31 million in 1960 to US\$ 286.3 million in 1970 and to US\$ 863 million in 1978. Concurrently, the share of trade as a proportion of total exports rose from 7% in 1960 to 26% in 1970, after which it gradually declined to around 20% in recent years. The integrationist movement began to lose a great deal of its dynamism beginning in 1978, a phenomenon which coincided with the intensification of internal conflict in a number of the member countries and with the worldwide recession. In absolute terms, trade within Central America expanded until 1980, when it neared the US\$ 1 billion mark, after which it declined to US\$ 775 million in 1982.

Along with the increase in trade, many other far-reaching achievements were in the making, including the successful operation of the Central American Clearing House, the rapid increase in the level of industrialization of their economies, a greater self-sufficiency in basic grains, and progress in the interconnection of highway, telephone and electricity systems. The integrationist movement was guided and supported by a great variety of mechanisms, committees and forums which continued to function relatively normally even in the times of greatest economic and political tension.

The recent course of the CACM should be considered against the background of two current and highly influential situations. On the one hand, out of the entire Latin American region, this group of countries has perhaps been the most seriously affected by the world economic recession, which has caused a sharp drop in exports and a significant decrease in external financing, with the obvious consequences for the import capacity and growth of the Central American economies. In 1982 there were marked decreases in the export and import levels of all the countries with the

/sole exception

sole exception of the imports of El Salvador. Everything seems to indicate that this situation will repeat itself in 1983. The gross domestic product of the five countries fell nearly 4% in 1982 as well, after having come to a standstill during the 1979-1981 period. Their debt position and the terms for the servicing of the external debt, although there are some notable differences from one country to another, do not differ in any essential way from those of most of the Latin American countries.

On the other hand, the increase in political tensions in a number of countries and in the region as a whole, especially in 1982 and 1983, coincided with major divergences in the governments' political stances and the presence of external actors in the region.

These two serious situations ultimately affected trade relations among the countries. Whereas intra-regional trade had grown during the 1970s at an average annual rate of 15%, and therefore played an important role in buffering depressions in the external sector, in 1981 and 1982 it declined in absolute terms for the first time. This contraction was even greater than the decrease in exports to points outside the subregion, causing the share of total exports represented by intra-subregional trade to decline to slightly under 19% in 1982. The picture for 1983, although it is not easy to determine, would appear to involve another contraction, probably similar to that of the preceding year. The historical process which was set into motion by the establishment of the integrationist scheme in the early 1970s and which was characterized by the dynamic role and compensating effect of intra-subregional trade was thus interrupted. This latest major crisis has undermined the foundations for mutual trade which were provided by the establishment of the common market and the operation of payments and clearing mechanisms.

The application of non-tariff trade barriers, owing to a shortage of means of payments, has ultimately affected mutual trade, which has now become a factor that magnifies the crisis, since its contraction has been greater and more erratic than that of extra-regional exports.

The deterioration of trade among the Central American countries was accompanied by a decline in the amount of transactions channelled through the Central American Clearing House, which represented only 664 million Central American pesos in 1982,*/ thus falling below the recorded level of trade, contrary to what had traditionally been the case. In 1981 the deficit countries with respect to trade within the CACM began to have difficulty in covering their balances due. At first the central banks of the surplus countries extended bilateral lines of credit, and later a regional mechanism was established for dealing with this problem on a multilateral basis (the Central American Fund of the Common Market), but by late 1982 these avenues appeared to have been exhausted.

*/ The Central American peso is equal in value to the dollar of the United States of America.

The external financing which had been expected also failed to materialize, and the backlog of unpaid balances caused trade to be channelled increasingly through routes other than those provided for in the multilateral agreements, such as barter and cash transactions in dollars. In addition, a number of countries were forced to adopt a series of exchange measures -devaluations, the adoption of multiple rates or controls on the movement of foreign exchange- in response to a widespread external imbalance which frequently affected intra-subregional trade. Numerous proposals and attempts have been made to overcome these obstacles. Nonetheless, the severity of the crisis has thus far prevented the problem of trade from being dealt with effectively, despite its obvious importance.

On the other hand -and in order to round out this brief overview of recent developments in the Central American integration process- a number of positive events should be brought out which are a reflection of the vitality and the ability to survive which this movement has demonstrated throughout its history. Despite the serious problems affecting them, the Central American countries have so far managed to maintain a degree of consensus as to the fact that subregional integration is an essential and irreplaceable tool for their development. One such event was that on the twentieth anniversary of the Central American Integration Treaty in 1981, none of the member countries withdrew from it, which meant that all the commitments that had been assumed continued to be valid. Another important event of recent years occurred in 1980 when the conflictive situation which had existed between El Salvador and Honduras since 1969 was resolved. Despite the great tension to which they were subjected, the many forums that guide and accompany the integration process continued to function relatively normally; these forums include the Meetings of Ministers and Deputy Ministers responsible for integration; the Central American Monetary Council; the Assembly of Governors of the Central American Bank; and various meetings of Ministers of Energy, Ministers of Transport and others. The institutions of Central American integration also continued to function normally. One important event in this context was the unanimous election of the new Chairman of the Central American Bank of Economic Integration in September 1983.

In recent years, some new institutions related to integration have been established, including: the Electrification Council of Central America (1982), which is devoted to the interconnection of national electricity networks; the Central American Commission on Maritime Transport; and the Railways Commission of Central America. Joint efforts also continued to be made to put the Central American tariff and customs reform into effect, to lift or reduce the restrictive measures applied to trade within the zone, and to obtain additional resources at the regional and international levels in order to reactivate such trade. In this last respect, mention should be made of the meeting organized by the Inter-American Development Bank at Brussels in September 1983 so that representatives of the Central American governments could jointly address the international financial community. Finally, the countries were able to adopt common positions in international forums and negotiations such as the assemblies of the IDB and IBRD and the sessions of UNCTAD and SELA.

/c) Influential

c) Influential factors and spheres of action

The critical situation currently being experienced by the Central American Common Market is influenced by a number of major economic and political factors which, moreover, are interdependent elements in the integration process. The pronounced openness of the Central American economies has meant that, in large part, they continued to be subject to the cyclical changes in the world economy. The reactivation of the international economy is surely one, although not the only, pre-requisite for a recovery of the Central American economy. It must be remembered that the terms of trade for the CACM countries has deteriorated by 50% since 1977 and that the external debt service now exceeds the value of exports in some countries. Consequently, as long as a more equitable and constructive solution to the problem of the external debt service is not found, it would be unlikely that the countries will have a sufficient import capacity, given the current terms for repayment, to revive their economies. It is therefore imperative for the region's basic exports to recover their dynamism, i.e., for the world recovery to result in demand and price levels which are equal to or greater than pre-recession levels.

Furthermore, the negative economic situation has contributed to making political tensions in the region more acute. Domestic conflicts within the countries themselves have combined with growing tensions among neighbouring countries, in which, moreover, extra-regional actors have not been uninvolved. It is not surprising that those political tensions have ultimately compromised the economies' growth capacity and the degree of linkage previously achieved among them. The Central American economy has shown a remarkable capacity to adapt to this extreme situation, although definite signs of exhaustion are beginning to appear in view of the seriousness and duration of the domestic conflicts and the tensions among the countries of the subregion. A prompt solution appears necessary to avoid the continual weakening of the countries' economies and the paralyzation and continual deterioration of the Central American integrationist movement. In this respect, both at the international and regional level, determined support has been lent to the Contadora Group, composed of four Latin American countries. This group is seeking peace in Central America, through diplomatic and political negotiations independent of the extra-regional interests which are involved in the current crisis.

The recovery of the regional economy will no doubt require substantial external financial aid. Mention has already been made of the burdensome nature of the external debt service. Similarly, regional capital has been drained considerably which is endangering future investment capacity. The infrastructure of production in some countries has sustained substantial damage and loss, because of military actions and the prolonged economic crisis. All of the foregoing indicates that, in addition to a more favourable economic and political context, reconstruction will require extensive and prolonged external financial aid.

The Caribbean Basin Initiative recently adopted by the Congress of the United States of America, to which reference is made in chapter I of this study, provides for an increase in official financial aid for the countries benefiting from that project. In principle, the Central American countries fall within the terms of the scheme, although their true qualification depends on a series of conditions set

/by the

by the donor country. This suggests that the Central American countries will not necessarily receive uniform treatment, with the negative consequences which this implies for the subregional integration movement. The granting of free access to selected exports from those countries to the United States market could prove to be more important than official aid. If no new investments occur, the granting of free access to the United States market would not appear to involve too much trade potential, if it is considered that in actual fact 85% of imports from Central America already enter that market free of duties. However, there may be products with trade potential which, up to now, have had to pay import duties and thus hinder their development. The countries can also take advantage of the opportunity which the Initiative has opened in order to meet the requirements of origin cumulatively, which involves the integration of various Central American inputs and added value.

The Central American countries, like other Latin American countries, are being challenged to develop new dynamic export sectors, in order to overcome their excessive dependence on a few traditional export products, which has proved to be especially harmful in the current phase of the world economic situation. As it did in the past, the regional market may continue to serve as a basis for many of these new export products.

In the context of the Common Market itself, there are still possibilities for rational import substitution, which would make it possible to save foreign currency which is now being used for imports from outside the region. The countries could consider the possibility of jointly approaching some products having a higher degree of technological complexity, including some capital goods.

However, it appears to be most urgent to liberalize trade within the CACM by eliminating the restrictions which the countries have been applying to that trade in recent years. Together with exchange measures and the exhaustion of the payments systems, those para-tariff restrictions are seriously threatening the survival of intra-Central American trade, and even of the integration system itself. At the very least, there should be a "standstill" agreement where the parties would pledge not to apply new trade restrictions, as was decided for all of Latin America at the recent Quito Conference. At the same time, the countries could begin negotiations gradually to reduce these non-tariff barriers. There is an awareness that mutual trade is essential in order for the region's manufacturing industry to operate. It should be recalled that more than 80% of that trade consisted precisely of manufactured products and that their decline has produced idle capacity and unemployment in that sector.

The countries are currently beginning a search for new formulas for financing trade. There have already been several attempts in this direction, which came to naught because of a lack of actual additional financing. The new formulas which are being tried range from simple barter and bilateral negotiation, through the usual multilateral clearing, with liquidation in foreign currency of only that portion of the balances equivalent to the portion of the products traded within the CACM which is imported from the rest of the world. What is really essential in these new formulas is the fact that trade should not be aligned on the payment capacity of the least wealthy countries, but that new sources of financing, including extra-regional ones, should be mobilized.

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In the past, the countries of the CACM jointly attained a degree of self-sufficiency in the supply of basic grains. However, for various reasons, the countries are obliged to allocate increasing shares of foreign currency to their imports from outside of the subregion. Future integration efforts will once again be oriented towards achieving greater self-sufficiency in agricultural products in order to strengthen the countries' collective economic security. In the same context, joint efforts should be continued towards defending exports of commodities to world markets, both with respect to prices and export quotas. In this area, it is essential to act jointly with the other Latin American countries, as indicated in chapter I of this study.

Finally, mention should be made of the opportunities offered by co-operation with the other countries of Latin America and the Caribbean. Several Central American countries have recently concluded trade agreements with Argentina and Mexico, endorsed by the 1980 Treaty of Montevideo, which envisage the mutual granting of trade preferences for the purpose of encouraging trade among the parties. In principle, all the member countries of ALADI are in a position to conclude similar agreements with the Central American countries, but the latter require prior formal consent by the other members of the CACM. These partial agreements must not damage the commitments reached within each integration scheme. Furthermore, future agreements should consider aspects which go beyond mere questions of trade, as for example co-operation in the industrial area, so as to continue strengthening the interrelationship among all the Latin American economies.

Within the context of ALADI, negotiation of a Regional Tariff Preference is being considered. The Preference can in principle be extended to the other Latin American countries, although this would probably require an additional negotiation process. Similarly, substantial progress has been made in the process of accession by the Central American countries to the ALADI payments systems. There is no doubt that the realization of this longstanding desire will make a significant contribution to increasing the trade links between the two groups of countries.

In consideration of the foregoing, it is essential to achieve peace and reactivate Central American development. The Latin American Economic Conference, in its Declaration of Quito, stated that "... there is an essential link between the problems of peace and development, since without peace, development will be unattainable, and without development, peace will always be precarious".

4. The Andean Group

a) Background

When analysing the progress of the Cartagena Agreement, it should be borne in mind that this scheme, more than the others in the region, has from the beginning attempted to establish a multifaceted set of interrelationships in the economic, social and labour fields, including the political, scientific, educational and cultural areas. Its long-term objectives are actually oriented towards the construction of a true community of nations, although its first stages placed strong emphasis on economic areas, in particular planning of joint development opportunities and treatment of foreign capital and technology, and on trade aspects.

/Although it

Although it is true that the majority of the Andean institutions emerged during the 1970s, it was only in May 1979, through presidential approval of the Cartagena Mandate, that it was defined as a System and that it was clearly established that the Cartagena Agreement was not only an instrument of economic integration, but that its objectives were much broader since they were designed to build a community of nations.

Certainly the political approach predominates in this definition, and therein lies its greatest innovation, especially bearing in mind the serious and varied difficulties which these countries have had to confront during its existence.

Furthermore, the initial design of the Cartagena Agreement was decidedly influenced by the international picture of that period, characterized by its stability and high rates of economic growth. At that time, 1969, there was as yet virtually no indication of the disturbances of today's world and the serious consequences of the prolonged and acute international recession, which will probably continue for some years, although in an attenuated form.

b) Recent development and current structure of the Andean Group

As is natural for an enterprise of this scope, the Andean integration scheme has been complemented and adapted over time. This alteration process was a reflection, on the one hand, of the natural evolution of the scheme and, on the other, of changes which had occurred in the international setting and the growing difficulties being encountered in applying the originally-planned mechanisms and instruments. For example, it proved to be impossible to reach an agreement on the Common External Tariff contemplated in the Cartagena Agreement. The Tariff was to replace the Common External Minimum Tariff in force for the relatively more developed countries of the Andean Group since 1976. The economic crisis worsened the already-existing differences among the countries as to the level and differentiation of the proposed Common External Tariff, which makes it unlikely that an agreement on this important subject can be reached in the near future.

Industrial programming, another cornerstone of the Andean integration process, was interrupted in the Automotive Programme, after the Metal-working and Petrochemical Programme were approved. In practical terms, only the Metal-working Programme generated trade of some significance among the member countries, especially if judged from a qualitative point of view. The Petrochemical Programme lost much of its effectiveness as a result of the drastic changes in prices and the supply situation of petroleum and petroleum products. Similarly, the rapid development of automotive technology, changes in the production systems and the presence of vested interests appear to have made this programme obsolete, since although it was adopted, it was never actually implemented.

The results of the Liberalization Programme and the trade results are analysed in detail in the following section, although we may say here that after a promising beginning, reciprocal trade was seriously affected by several failures to meet tariff reduction commitments and by the recent imposing of non-tariff restrictions on trade.

/In contrast

In contrast to some signs of stagnation and recession, there have been new achievements which must be considered if we are to have a complete vision of the Andean process. It is already a great success for the countries to have remained unified around a common objective, despite the considerable tensions to which the scheme was subjected because of the economic setbacks suffered by the countries, the changes in emphasis of the general guidelines of their economic policies and the various political situations of conflict between some of the member countries, which have shown themselves to be capable of overcoming critical situations and giving the process a new dynamic, by approaching new areas for common action and adapting existing mechanisms. On other occasions, it has been necessary to extend the time periods originally anticipated for the various phases of the process and, in some cases, initiatives have been left pending, as in the case of the adoption of the Common External Tariff.

In the political-economic sphere, the Andean countries have successfully adopted common positions to defend their interests, an example of which is their joint position in the negotiations on the restructuring of ALALC-ALADI and at the most recent session of UNCTAD, in Belgrade. A recent achievement was the Co-operation Agreement concluded with the European Economic Community in December 1983. In addition, there have been several significant meetings among presidents of the Andean countries, on which occasions new guidelines have been established for the process.

Furthermore, there was a significant achievement in the legal field with the establishment in Quito of the Andean Court of Justice, the Group's first body with supranational powers.

Similarly, the System of Permanent Co-ordination among Andean Integration Bodies was formally created in May 1983. The main objective of this mechanism, which was established under the Cartagena Mandate, is to co-ordinate the programmes of work of the various Andean institutions. It is composed of the highest authorities of the System and meets at least once a year. The Board of the Cartagena Agreement performs the duties of Permanent Secretariat.

In addition to the foregoing, the Andean Consultative Entrepreneurial Council and the Andean Consultative Labour Council, were created in July 1983. Both bodies were a result of the recommendations contained in decisions 175 and 176 of the Commission of the Cartagena Agreement.

Finally, in July 1983 came the adoption of the José Celestino Mutis Agreement on agriculture, food security and conservation of the environment in the subregion, closely linked to the bodies of the Agreement. Thus, the Andean Group enjoys a broad range of institutions and mechanisms which are providing form and content for this expanding network among the member countries.

Below is a summary of the main Andean Group mechanisms which have been in operation to date:

i) At the political level: Presidential meetings, Andean Council (Ministers of Foreign Relations) and Andean Parliament.

ii) At the jurisdictional level: Andean Court of Justice.

iii) At the operative level: Cartagena Agreement (instrument for promotion of economic and social integration); Andean Development Corporation (development financing); Andean Trade Financing System (SAFICO); Andean Reserve Fund (balance-of-payments support, standardization of policies, increase of countries' international liquidity); Hipólito Unanue Agreement (promotion of integration in the health sector); Simón Rodríguez Agreement (integration in the social and labour fields); Andrés Bello Agreement (integration in the cultural field); José Celestino Mutis (integration in the agricultural field); Consultative Labour Council; Consultative Entrepreneurial Council; Association of Andean State Telecommunications Enterprises; and System of Permanent Co-ordination among the bodies.

In addition, the fact that the System of Co-ordination is of recent creation indicates that it is still in its formation process and that a relatively long period of time may elapse before the full functioning of Andean institutionality, which already has a significant political value, is attained.

c) Trade liberalization and Andean trade

One of the most important goals of the Andean integration process is the formation of a broader market, that is to say, the establishment of a customs union. To this end a programme of tariff reductions among the countries was adopted, and a process leading to a Common External Tariff was begun. The three relatively more developed countries began their reductions in 1970 and completed the liberalization in 1974 to the benefit of the two relatively less developed countries (Bolivia and Ecuador), with the completion of the process planned for the end of 1983, when the trade of the relatively more developed countries was also to be freed of duties.*/ Bolivia and Ecuador should have begun their reduction process in 1981 with a view to completing it in 1990, but the two countries negotiated a postponement of this obligation until such time as the commitments assumed by the other countries were fulfilled. However, significant progress was achieved, at least formally, with regard to the mutual opening of markets. The maximum level of domestic tariff for the liberalized products amounted to only 14% in 1982. More than 80% of these products had levels that were equal or lower than 10% the same year.

The Agreement envisaged two stages for the adoption of the Common External Tariff. The Tariff as such should have entered into force in 1983 for Colombia, Peru and Venezuela and in 1990 for Bolivia and Ecuador, in view of the extensions approved through the Lima and Arequipa Protocols. To date, the countries have not been able to reach an agreement on the Tariff, despite considerable efforts to meet that objective. These disagreements have been influenced to some extent by the changes in the external trade policies of the member countries and the impact of the external crisis on those policies. The current economic situation is certainly not helping the countries to standardize economic policy instruments of such significance as tariffs.

*/ The Agreement authorizes all the countries to exempt the products on certain limited lists from these reductions.

It may therefore be concluded that to a certain extent the market broadening process had remained incomplete,*/ despite the significant progress achieved. It is to be hoped that the countries will be able to preserve what they have worked so hard to achieve and complete the process when the economic situation is more favourable.

When the tariff preference was implemented, a great increase in trade within the subregion was observed. Thus during the period 1970-1981, intra-subregional exports rose from barely US\$ 92 million to US\$ 1 195 million, which means that the average annual growth rate was far higher than that of total exports (26% as against 17%). As a result of this growth differential, the relative weight of intra-subregional trade in total imports increased during the same period from 1.7% to 4.0%.

From 1981 onwards the external trade of the Andean countries has been forced to confront increasing problems. When the world economic recession descended upon the member countries of the Andean Group, trade among them was severely affected and decreased for the first time in 1982. The member countries, nearly all with acute deficits in their balances of payments, imposed severe restrictions on their imports, which in some cases were applied without distinction to both Andean and non-Andean imports. The lack of fulfilment of trade liberalization commitments, a problem which has been present from the beginning of the process, worsened to such an extent that the countries affected began to take equivalent trade measures.

In addition to this deterioration, the parties had difficulties in carrying forward the negotiations on the establishment of the Common External Tariff and the reorganization of the Sectoral Industrial Development Programmes. This, together with the decrease in subregional trade, which appears to have become more acute during 1983, sharpened their awareness that drastic and immediate measures would have to be taken to check this process of paralyzation and deterioration and give new strength to the network of relations among the member countries.

d) Financial co-operation in the framework of the Andean Group

Several modalities of financial co-operation have been created within the Andean Group, in addition to participation by all the Andean countries in the Reciprocal Payments and Credits Agreement of ALADI and the Santo Domingo Agreement, which provides support for balance-of-payments problems. Because of the special features of some of the subregion's financial mechanisms, a summary of their main characteristics appears below.

i) The Andean Development Corporation (CAF). Since beginning its activities, the CAF has approved operations in the amount of US\$ 547.9 million. In like manner, through the Andean Trade Financing System (SAFICO), which entered into force in 1974,

*/ The Common Minimum External Tariff offers only a partial coverage, since it cannot be exacted from Bolivia and Ecuador and does not apply to products reserved for industrial programming, those not produced in the region or those contained in the lists of exceptions.

additional credits in the amount of US\$ 128 million were granted.*/ Considering the fact that the CAF has been in operation for more than 13 years, and given the potential size of its area of operations, that level of operations appears to be relatively modest. The Corporation was designed to support the integration process through credits and technical co-operation for executing projects and financing working capital. It can also endorse actions in enterprises as a means of promoting their development. The work of the CAF was designed to give priority to projects and enterprises with a high integration content, in particular to those deriving from the Sectoral Industrial Development Programmes and to the relatively less developed countries.

The gap between objectives and the actual situation can partially be explained by the lack of paid-up equity capital. In the second place, and especially in the early years, the operations were linked wherever possible with the Sectoral Development Programmes. The setback suffered by those Programmes affected the level of operations of the financial mechanism. Finally, the institution did not have the flexibility necessary to adapt to changing conditions, and its mode of operation was characterized by extreme caution.

From 1982 on, the CAF has reoriented its activities through elaboration of a Multiannual Programme of Operations which extends through 1986, but which will be reviewed annually. During these five years, the Corporation will attempt to focus its action on eight selected sectors, in accordance with the priorities set by the guiding bodies of Andean integration,**/ and on certain specific projects arising from the priorities set by the countries.

To meet these goals, it is necessary to increase equity capital and double the level of operations during the five-year period, raising it to over US\$ 1 billion. Those goals were appraised at the Meeting of Andean Presidents, on 25 July 1983, at which it was agreed to increase the CAF resources. A few days earlier, the Board of Directors of the Corporation had granted an increase of US\$ 100 million in the subscribed capital. This may contribute to the effective mobilization of a greater financial potential for achieving the objectives set for future activities.

ii) Andean Reserve Fund (FAR). This is a relatively recent undertaking of Andean co-operation in the financial field. Preparations for its creation began in 1970. However, it was actually implemented more recently, in June 1978. It currently has capital of US\$ 320 million, and its objectives are to support the balances of payments of the member countries and standardize their exchange, monetary

*/ SAFICO was formed in 1974 in the framework of the CAF, as a financing mechanism for Andean commerce. It grants credits both to the Andean exporter and the importer of products originating from the subregion. Its objectives are basically to promote intra-subregional exports of non-traditional products and services.

**/ The eight areas are the following: sectoral industrial development programmes, agricultural and agro-industrial development, physical integration, industrial rationalization, scientific and technological development, use and conservation of regional natural resources, education, health and tourism and support to Bolivia and Ecuador.

/and financial

and financial policies. With regard to the latter objective, several basic studies have been carried out, but the severe difficulties which the countries have recently confronted in these areas have made further progress impossible. In fact, the differences between countries and economic policies are even wider now than before, and the objective of standardization has necessarily had to become a more long-term goal.

The balance-of-payments support measures were focused on the granting of credits or guarantees to the central banks in order to obtain resources which would allow them to cover deficits in the external sector. As of June 1983, the Fund had granted credits to Bolivia, Ecuador and Peru in the total amount of US\$ 630 million. At the same time, it was successful in structuring a solid financial position and becoming a flexible and effective instrument of support. The growing financial problems will probably require a strengthening and improvement of the Fund's ability to procure external resources. In its present capacity, the FAR is already an interesting example of financial co-operation which, with a minimum of operational expenditures, has become stronger over time and has made a significant contribution to the national financial systems.

e) Plan for Reorientation of the Andean Group

At the level of the community bodies of the Cartagena Agreement, there is full awareness of the delicate situation of the Andean integration process today. Their concern for strengthening what has been achieved to date and making the scheme more dynamic gave rise to a series of studies and numerous consultations, which ultimately led to the adoption of the Plan for the Reorientation of the Andean Integration Process, during the thirty-fifth extraordinary session of the Commission (July 1983). The Plan envisages eight broad areas of priority action: trade, industry, agriculture, foreign relations, science and technology, frontier and tourism. It also includes a special régime for Bolivia and Ecuador.

In view of the deteriorating trade situation, the Board has presented the governments with several choices, namely: i) the commitment not to impose new restrictions or duties on Andean trade as of a certain date; ii) raising of all restrictions and duties which violate the liberalization commitments for products considered to be "non-sensitive"; iii) agreement on import quotas for the "sensitive" products; iv) creation of new trade opportunities through practical modalities, such as agreements on State purchases, countertrade agreements, marketing of surpluses and shortfalls, etc., and v) a series of measures to re-establish the subregional preference and complete the liberalization programme.

In the industrial area, actions would focus on: a) making current allocations more flexible, through countertrade agreements and the rationalization of existing products; b) promotion of industrialization through projects and of industrial agreements with ALADI countries, and c) special programmes involving small- and medium-sized businesses.

The agricultural sector has proved to be a difficult area for moving towards integration, and the Andean Group has dealt with this problem through different approaches which have had only limited effects in that sector to date. The

Reorientation Plan began a new stage, which was formalized through the signing of the José Celestino Mutis Agreement on agriculture, food security and conservation of the environment. The objective of the Agreement is to create the Andean Food Security System. To reach that goal, a joint programme of research and transfer of agricultural technology will be organized, in addition to co-ordinated action fostering the use and rational management of resources.

In the field of science and technology, some aspects envisaged are, guidelines for subregional scientific and technological policy, provision of an adequate flow of financial resources to develop that policy, joint negotiation in acquisition of technologies and the creation of an Andean Technological Information Network.

In the area of infrastructure, an attempt will be made to facilitate transport of persons and goods through rationalization of procedures and documentation at the countries' points of entry. For the tourism sector an Andean programme on tourist development and integration has recently been established.

Finally, with regard to special régime for Bolivia and Ecuador, the Plan states the need for subregional co-operation to be based on the development of specific projects located in the two countries, designed to increase and diversify their exports. The member countries should facilitate access to their markets for those exports. Financial reinforcement from the Andean Development Corporation and the Andean Reserve Fund should take the form of larger flows of financial aid towards those countries.

The Presidents of all the member countries of the Cartagena Agreement, in their joint declaration of 24 July 1983, entitled "All Americans should have only one home country", repeated their firm support for the Andean integration process and reiterated the main points of the Reorientation Plan.

5. Caribbean Community (CARICOM)

a) Recent development of the Common Market

Like the other integration schemes in the region, CARICOM has had to confront increasing problems, many of which have been caused by the deterioration of the economic situation of its member countries, in particular owing to the current world economic crisis. Since the Caribbean countries are relatively small in size, with a high degree of opening to foreign trade, the repercussions of the economic recession have been far-reaching. The negative external economic situation has been reflected in stagnation of economic growth and the accumulation of considerable deficits in the balance of payments of nearly all the member countries. It may also be observed that by 1981, total CARICOM exports began to contract sharply, by 7% that year and another 11.8% in 1982. This deterioration appears to have become more acute in 1983, judging from the indicators available at that date.30/

Trade within CARICOM maintained the same level from 1980 onwards, although in 1981 and 1982 its performance was less unfavourable than total exports, with the resulting increase of its share in total exports, which rose from 6.4% in 1980 to

/8.2% in

8.2% in 1982 (see table 30). Although precise data on trade in 1983 is not yet available, everything suggests that interregional trade decreased considerably during that year.

Trade within the region has been increasingly affected by the deteriorating balance-of-payments situation of the member countries. Due to the extreme scarcity of foreign currency which practically all of them have had to confront, the countries have been restricting their imports severely often without exempting those from CARICOM itself. One country adopted a system of multiple exchange rates which was eventually altered, after claims by the countries which felt themselves to be affected, by means of a special exchange rate for imports from the region.

Recent economic and political circumstances have worsened the problems arising from implementation of the Common Market instruments. In June 1981, a new system of Rules of Origin had entered into force for the purpose of promoting the use of raw materials from within the subregion itself in industrial processes. However, in September 1983, it was necessary to create a Regional Enforcement Committee to study follow-up and lend advisory assistance regarding fulfilment of the Rules of Origin, since claims of violation of the Rules had been submitted. Most of the claims were made in connection with the clothing industry, which is highly important in the industrial structure of CARICOM. The Regional Vigilance Committee is not yet completely functional with respect to fulfilling its purposes. Current stipulations provide for it to be activated at the request of the parties lodging claims. Unfortunately, its functions and powers in settling disputes have not yet been clearly defined.

In this context, it should be recalled that only four relatively more developed CARICOM countries (Barbados, Guyana, Jamaica and Trinidad and Tobago) are subject to the Community's Common External Tariff. In 1967 the remaining countries, known as the relatively less developed countries, formed the East Caribbean Common Market (ECCM), which has its own Common External Tariff. In June 1981 these countries decided to carry the integration process further and created the Organization of Eastern Caribbean States (OECS), which absorbed its predecessors, in the economic (ECCOM) and political (West Indies Associated States) spheres.

Article 31 of the annex to the Treaty of Chaguaramas contains a strategy for standardizing the external tariffs of CARICOM and the East Caribbean Common Market (ECCM), but its entry into operation has been delayed. CARICOM's tariff and trade problems have also been complicated by several currency devaluations, which have helped to discourage intra-subregional trade.

Among the first achievements of the recently-established OECS, mention should be made of the creation of the East Caribbean Central Bank on 1 October 1983. In addition to co-ordination in the economic sphere, the Organization attempts to carry forward a common policy and initiatives in the area of foreign relations and defense, and continues the work of its predecessor organizations in developing common services, such as air transport, administration of justice, etc.

/The CARICOM

The CARICOM Multilateral Clearing Facility, which has been in operation since 1977, has made possible an average saving of 85% of convertible foreign currency which, had it not existed, would have been used for trade within CARICOM. The prevailing crisis eventually affected its functioning, and in April 1983 the Facility had to suspend its operations due to the fact that unpaid loans exceeded the approved maximum of US\$ 100 million. The Facility's basic problem lies in its limited financial capacity, which is not sufficient to meet the chronic imbalances of trade within the subregion.

b) Events in other community areas

In addition to stressing the development of a common market, CARICOM carries out joint initiatives in other related areas, the final goal of which is to form a community of nations. Among these areas are transport, the agricultural sector, industry, energy and so-called "functional co-operation". A long-standing desire of the countries has been to rationalize their air and maritime transport so as to provide the member countries with timely and efficient transport services, both in and outside of the subregion.

Although the Caribbean contains two regional airlines (LIAT, CARICARGO) and two multinational shipping lines (WISCO and NAMUCAR), the rationalization sought has not been attained to date. Local transporters have to face heavy competition from countries outside the zone, and this often endangers their enterprises. In July 1983, an Intergovernmental Air Transport Agreement was signed, establishing the possibility for one member State to designate a national airline belonging to another member State as its own national airline. The Agreement also envisages the creation of a Consultative Committee on Civil Aviation, which will provide a forum for improving bilateral treaties in the area of air services.

CARICOM has stated its intention to rationalize maritime transport, while at the same time protecting the position of WISCO as the official regional transport company. To this end, a high-level Commission has been established to formulate proposals to governments on this question.

In 1982 the regional food and nutrition strategy was made more dynamic through the adoption of a pragmatic approach. It was decided to place more emphasis on specific rapidly-executed projects for satisfying the population's basic food needs. The main executing agency of this strategy is the Caribbean Food Corporation, which was established in 1976 but did not begin activities until 1982, and which supplies credits to agricultural production projects.

Furthermore, since its creation CARICOM has maintained special trade agreements for the sector's products. Three additional protocols to the Treaty of Chaguaramas cover the marketing of sugar, fats and oils and 22 selected agricultural products. These protocols have had limited effectiveness because only a relatively small proportion of the volume of these products marketed in CARICOM falls within the legal framework of these instruments.

At their Fourth Conference, the Heads of State decided to suspend operation of these protocols, while a new regional food security programme was established, in accordance with the following principles:

- i) the subregion should be the main source of its own food supply;
- ii) there should be a regional strategy designed to achieve self-sufficiency through intra-regional trade, and
- iii) trade with the rest of the world should serve to remedy possible deficiencies and should be a source of foreign currency for use in other sectors of the economy.

However, new and significant impetus for agricultural co-operation could emerge from a recent decision to remove all trade barriers from primary agricultural and livestock products. This decision implies that the members of CARICOM are now prepared to create a single regional market for these products. However, the Fourth Conference of Heads of Governments, which adopted the decision, also recognized the insufficiency of regional production. Therefore, the granting of priority to intra-regional supply naturally does not exclude the need for additional supplies of external origin.

In the area of Industrial Programming, the CARICOM scheme for standardizing fiscal incentives for industry, created in 1973, is currently being revised. At the same time, the industrial programming process has continued with the temporary distribution of 16 potentially feasible industrial products. The latter supplement 31 industries assigned to the member countries of the ECCM. An industrial programming methodology has also been adopted, subject to the agreement of all the members. It contains criteria for the distribution of products and, in general, for the implementation of an industrial strategy through an appropriate institutional framework. Agreement has been reached on modalities and circumstances of incorporating the private sector, which could include a private sectoral development bank set up with the support of USAID, in the framework of the Caribbean Basin Initiative.

The member countries of CARICOM are beneficiaries of both the San José Agreement created by Venezuela and Mexico and the Oil Facility maintained by Trinidad and Tobago in favour of the relatively less developed countries of the Community. Both programmes, which are designed to alleviate the financial costs of importing hydrocarbons, had to be reformulated recently in line with the difficult external financing situation which is affecting the donor countries.

In July 1983, the CARICOM Heads of Government adopted a Regional Energy Action Programme, whose long-term objective is to promote a more rational and co-ordinated development of energy resources. A more concrete goal is to alleviate, in the shortest time possible, the negative effect of energy prices on the Caribbean economies. The Programme encompasses areas such as transport of petroleum and petroleum products, and the creation of appropriate supply mechanisms which would make it possible to rationalize refining capacity towards March 1985. It was also agreed that Trinidad and Tobago should become the main supplier of petroleum products for the member States of CARICOM who do not have their own refining capacity, or whose capacity is insufficient to meet domestic demand. For its part, the

/Government of

Government of Trinidad and Tobago decided to continue its co-operation in the area of petroleum, which began in 1979.

Typical of CARICOM are the joint activities developed in a field known as "functional co-operation", which includes, inter alia, the areas of health and population, education and culture, tax administration, youth and sports. Co-operation in these areas offers the countries the opportunity to carry forward activities which would not be viable in the limited context of a single country. An important example is the University of the West Indies, which has various campuses in several member countries, but whose administration is centralized.

c) Evaluation of the reactivation process and programmes

From the beginning of this decade, CARICOM has been in a difficult phase of its development. On the one hand, a certain degree of maturity has been achieved, reflected in the implementation of the instruments which are the essential part of the integration movement, such as mutual trade liberalization and the application of a common external tariff. In the early years of CARICOM, trade among the countries responded positively to these new stimuli; however, a series of deficiencies and obstacles were building up and making the new achievements increasingly more difficult. One of these obstacles has been the unequal participation of the countries in trade, especially regarding the relatively less developed countries. The economy of the majority of the countries had violent ups and downs and even experienced recessions towards the end of the last decade. There were serious obstacles to the development of certain areas considered to be essential, such as agricultural integration and industrial programming. The recessive situation which was developing towards the end of the 1970s became more acute when the world crisis made its effects felt in the region, from 1981 onwards. Achievements mentioned previously, such as trade liberalization, were affected by the deterioration of the countries' external position. Intra-regional trade became sluggish, and the financial means for helping it to recover proved to be very limited.

The governments' growing concern with these negative trends has been reflected in several initiatives -some of which have already been discussed- designed to stabilize and reactivate the integration movement. The Common Market Council of Ministers entrusted a group of independent experts with a comprehensive study of the current state of the integration process and methods for reactivating and reorienting it. In their final report, published in 1982, the group of experts reaffirmed the role of regional integration as the only viable strategy for the best possible development of the member countries. It also felt that the objectives of the Integration Treaty continue to be valid and that priorities should be established in the implementation of the integration instruments. It observed that so-called "functional co-operation" had accomplished its task reasonably well, but that industrial programming still required a considerable additional effort with regard to technical preparation and negotiations among the parties. It recommended that the countries should support the relatively less developed countries in their efforts to increase their production and export levels. It also recommended that the Community should consider including new countries, following a careful review in each case.

/Against the

Against the backdrop of such an unfavourable picture, the Fourth Meeting of the Conference of Heads of State, the highest body of the Community, was held in July 1983. The Third Meeting had been held in November 1982, after an extended period of seven years. Both meetings sought solutions to the most urgent problems of the region. Several measures were proposed with regard to the Payments System, inter alia, the extending of its financial capacity, the opening of a new medium-term credit window and the creation of a stabilization fund. The future of the Payments System will depend on the willingness of the countries of greatest capacity in the region to increase their lines of credit to the others.

The possibility of channelling extra-regional resources for these purposes will also be considered. It was also recommended that the Caribbean Development Bank should make its operations more flexible, chiefly for the purpose of increasing its financial assistance to production projects, especially in relatively less developed countries.

The governments expressed their intention to remove the quantitative restrictions affecting trade within CARICOM by the end of 1983. In June 1981, CARICOM had already adopted a new Regulation of Origin designed to increase the level of elaboration of local and regional inputs. It was agreed to exchange information on the operation of State commercial enterprises for the purpose of appraising their role in the expansion of intra-regional trade.

The member countries of CARICOM have attempted to co-ordinate their positions regarding the Caribbean Basin Initiative so as to obtain the greatest possible benefit from it. It is proving to be difficult, but also extremely important, for the potential beneficiaries to maintain some cohesion in the current economic situation. Indeed, proper co-ordination of positions would make it possible for all the countries concerned to have equal access to the benefits of the programme and, at the same time, would offset the protectionist pressures of the United States, which are threatening to reduce those benefits.

There has been growing interest within CARICOM in extending its trade links in order to offset the slow and uncertain development of its traditional markets. The other Caribbean countries and Latin America are the first choices in this new approach. In addition to their proximity, they offer markets with high growth potential, characterized by levels of development similar to those of the CARICOM countries, which can facilitate the concluding of trade and production agreements. In the past there have been requests by the Bahamas, Haiti, the Dominican Republic and Suriname to enter the Caribbean Community. The Bahamas has already signed the Treaty of Chaguaramas, with which it entered the Community, but it is not yet a member of the Common Market. Haiti and Suriname were admitted as observers to several of the Community's technical committees. CARICOM has shown strong reluctance to extend the Community for the time being, which is understandable in view of its current internal difficulties.

In mid-1983, ECLA began a study on the current state and future prospects of co-operation between the Caribbean and Latin America. That initiative grew out of resolution 440, adopted at the nineteenth session of ECLA held at Montevideo, Uruguay, in May 1981. The resolution specifically requests the Secretariat to

/collaborate with

collaborate with the Caribbean integration and co-operation institutions to prepare a programme of work designed to promote technical and economic co-operation between the regions. The preliminary report which resulted from that efforts has already been submitted to the consideration of these institutions and the governments of the region.

6. The Latin American Economic System (SELA)

The Convenio de Panamá (Panama Agreement), signed in October 1975, created the Latin American Economic System (SELA), which comprises all the sovereign countries of Latin America, including the independent republics of the Caribbean.*/ The Agreement stipulates that one of the basic aims of SELA is to "promote intra-regional co-operation for the purpose of accelerating the economic and social development of its member States" and foster "a permanent system of consultation and co-ordination of common positions and strategies on economic and social topics, both in international bodies and fora and towards third countries and groups of countries".

Naturally, the two areas are interrelated both in conceptual and operative terms. The fact that a particular activity may be stressed at a given moment is, to a large extent, a result of priorities determined by prevailing circumstances and is of a temporary nature.

a) Consultation and co-ordination

SELA has done extensive work in this area, beginning with the adoption, at the First Special Meeting in January 1976, of the Lines of Action of Latin America regarding the main topics to be discussed by the Group of 77, for the purpose of co-ordinating the position of the third world at UNCTAD IV. Its participation as permanent observer in the International Economic Conference, known as the Paris Conference or North-South Dialogue, led to its becoming a permanent presence in the international sphere, a few months after coming into existence.

In the framework of relations with countries and groups of countries, various activities and meetings have been carried out, enabling the Latin American Council to adopt decisions which have made the regional position, which attempts to alter the asymmetrical relationship between Latin America and the developed countries, emerge clearly.

The Eighth Regular Meeting of the Latin American Council, in August 1982, took place in a particularly critical context. The economic recession in the industrialized countries was seriously affecting the region and its effects were becoming more and more specific, at a time when international co-operation was showing itself to be absolutely inadequate to help solve the problems of the Latin American countries.

*/ As of the closing date of this study, Paraguay had not ratified the Panama Agreement.

In this context, characterized by dependence and a growing degree of vulnerability, the Falklands Conflict ultimately provided a setting for events which cast a shadow on relations between the hemispheres.

Latin America reacted to this situation in various ways, demonstrating particular cohesion and solidarity. In the framework of the above-mentioned Meeting of the Council, two decisions were adopted which were of particular importance, because of both their political aspect and their significance for permanent progress towards a permanent defence of regional sovereignty.

Decision 112 relates to the "Imposition of Economic Measures of a Coercive Nature". It criticizes the industrialized countries for using these measures "as instruments of political pressure" which "constitute unilateral, illegitimate and arbitrary acts" whose "application harms the provisions of the international legal order". It reaffirms the sovereign right of nations to express their solidarity towards any country affected and pledges "collective action by the region so that the international community will reject such measures".

This decision establishes clear political principles, complemented by the practical measure laid down by decision 113, which defines "as a serious economic emergency, any situation caused by the imposition on one or several member States, by third States, acting individually or jointly, of economic measures of a coercive nature in violation of the norms and practices of international law".

In view of these circumstances, an emergency Extraordinary Meeting of the Latin American Council should be convened to "consider the situation, decide on a course of action and adopt measures making it possible to offset the effects of such coercion".

In May 1983, at the request of Nicaragua, the Latin American Council held an extraordinary session, for the purpose of examining the situation created by the unilateral reduction, by the Government of the United States of America, of the preferential import quota for Nicaraguan sugar in that country's market. Decision 148 repudiated that measure and reaffirmed the principles enshrined in decisions 112 and 113. Perhaps this decision will not have any practical results, but its essential achievement is to have established a new political antecedent which will help consolidate basic principles in relations between Latin America and the industrialized countries.

Council decision 113 combines, in equal measure, a short-term response to the coercive measures with the need for "regional economic security also to be strengthened through the adoption and implementation of specific measures for reducing the dependence and external vulnerability of the Latin American economies. These measures should be given practical expression in fields such as trade, external financing, insurance and reinsurance, international transport, technology, food self-sufficiency and other fields of priority for the objectives of the Latin American countries through complementation and integration among the countries".

/In short,

In short, the region has elaborated a political statement, which should address any coercive economic measures adopted which affect the self-determination and sovereignty of a member country. It has also begun a process of giving new value to intra-Latin American co-operation as an instrument for giving impetus to an autonomous and self-sustained development. Although these concepts were clearly stated in 1982 and enshrined in the above-mentioned Council decisions, it is important to bear in mind that the initiatives of President Hurtado of Ecuador changed their pace and situated them in a high-level political context which could make them into an operative platform that will be influential in solving the pressing problems which are confronting the Latin American economy and society.*/

b) Regional co-operation

Aspects relating to regional co-operation have been channelled within SELA mainly through the Action Committees, which seek to achieve specific results in relatively short time periods. The Committees are open to participation by all the member countries of the system, although membership in them is voluntary. Fulfilment of their objectives is obligatory only for those countries which are members of each Action Committee.

The basic features of this mechanism are its high degree of flexibility and practicality regarding what the countries truly wish to achieve in a particular field or subject. As a result, the Committees are the result exclusively of the objectives and political responsibility of the States. Administrative capacity and the capacity to make proposals are also incumbent on the Permanent Secretariat, and the secretaries of the Committees perform a particularly important role.

Practical experience has shown that two other circumstances have a decisive influence on the possible success or failure of a committee. The first relates to the intrinsic nature of each sector or subsector. In some cases, such as that of the fishery sector, because of the very geographical mobility of the resource, multilateral initiatives are dynamic and diversified and facilitate the co-ordination of actions which can even overcome political restrictions. In others, the situation is different. There are sectors in which the primary focus of activity is on topics of a domestic nature, which limits multilateral initiatives, as is the case with housing. This does not mean that there cannot be joint actions, but that these actions are more dependent on other factors, which increases difficulties in structuring an operative scheme which includes several countries.

The second circumstance is linked to the actual political support which particular sectors or subsectors have in governmental spheres. In some cases, such as the MULTIFERT experience indicates, sectors have a definite effect on the countries' economy, since decisions are taken at the level of the ministry of the economy and even at the presidential level. Other sectors, such as cottage industry, despite their extreme implicit importance, have little capacity for negotiation or

*/ The initiative of President Hurtado of Ecuador and the results of the Latin American Economic Conference in Quito will be examined in more detail in section three of this chapter.

pressure in the domestic sphere, since in the majority of countries they belong to disadvantage areas of the economy. This limits their capacity to adopt multilateral decisions, and the progress made is always smaller than the actual potential. Finally, within the Action Committees, political régimes of different types and different economic conceptions and structures must be able to overcome disagreements and unite efforts around specific topics of common interest.

Since 14 November 1976, when the first SELA Action Committee on "Support to the Guatemala Reconstruction Programme" was formally established, a varied and multifaceted range of experiences has been achieved as regards application of this regional co-operation instrument. Several Action Committees approved by the Council were set up and began their activities within reasonable time periods, achieved significant progress and aroused the interest of a growing number of countries who gradually joined their activities. Without any doubt, the most outstanding example in this case is the Action Committee on ocean and fresh water products. In other sectors, there were obvious difficulties, since some Action Committees created by decisions of the Latin American Council were not established because of various circumstances.

Those Committees created as a result of direct stimulus by some countries have developed in the same way. The cases of the Action Committees on fertilizers and the cottage industry are appropriate examples, since they were able to put an interesting process into practice. On the other hand, there have also been some frustrated initiatives which never became a reality, despite subsequent support by the Council itself through agreements or decisions.

At the date of this report, thirteen Action Committees had begun their work, while nine other proposed Committees had not begun activities. Of the thirteenth functioning Committees, five comprise between 15 and 17 member countries; three Committees have eleven participating countries as members; one Committee has ten countries; while the Latin American Technological Information Network (RITLA) and the Action Committee for Co-operation by Foreign Trade Entrepreneurial Bodies (OECEG) are composed of seven and five member countries respectively. This means that the selected sectors and activities have generally aroused the interest of a substantial group of countries. Table 32 contains a summary of participation by member countries in the Action Committees.

Below is a list of the specific functions of each of thirteen Action Committees mentioned above.

a) Action Committees placed in operation by initiative of the Latin American Council

- i) Decision No. 6. Support to the Guatemala Reconstruction Programme.
- ii) Decision No. 8, article 2. To elaborate, identify and implement a programme of manufacturing, marketing and distribution of food supplements of high protein content.

/Table 32

Table 32
LATIN AMERICA: PARTICIPATION BY COUNTRIES IN ACTION COMMITTEES
(Situation as of July 1983)

Member States	Action Committees													
	Nicaragua <u>a/</u>	Fishery <u>a/</u>	Cottage industry <u>a/</u>	RITLA <u>a/</u>	Tourism <u>a/</u>	ALASEI <u>a/</u>	CASAR <u>a/</u>	Guatemala <u>b/</u>	Fertilizers <u>b/</u>	Housing <u>b/</u>	Food supplements <u>b/</u>	OECGS <u>b/</u>	Argentina <u>b/</u>	Total
Argentina	*						0	*			*		0	5
Barbados			*		*									2
Barbados			*		*	*		*	*	*	*		*	11
Bolivia	*	*	*	*	*	*		*	*	*	*		*	5
Brazil	*			0			*	*			*		*	2
Colombia					0	*		*	*	*	*		*	10
Costa Rica	*	*	*			*			*	*	*	*	*	9
Cuba	*	*	*					*					*	4
Chile		*						*		0	*		*	11
Ecuador	*	*	*	*	*			*	*				*	6
El Salvador	*	*			*			*	*	*	*		*	9
Guatemala	*	*	*		*				*		*		*	5
Guyana		*	*			*	*	*					*	5
Grenada	*				*	*	*	*		*			*	7
Haiti	*	*	*		*		*	*					*	6
Honduras		*	*		*			*			*		*	3
Jamaica		*	*					*	0	*	*	*	*	12
Mexico	*	*	*	*	*	*	*	*		*	*	*	*	11
Nicaragua	0	*	*	*	*	*	*	*	*	*	*	*	*	10
Panama	*	*	0			0		*	*	*	*	*	*	
Paraguay							*	*	*	*	*		*	11
Peru	*	0	*	*	*		*	*	*	*	*		*	4
Dominican Republic	*					*		*					*	1
Trinidad and Tobago								*			*		*	4
Uruguay	*												*	1
Suriname							*	*	*	*	0	0	*	13
Venezuela	*	*	*	*	*	*	*	*	*	*	0	0	*	13
	17	16	15	7	11	12	10	16	11	11	15	5	21	

Note: As of 1 July 1983, Costa Rica withdrew from all the Action Committees except the Tourism Committee.

a/ = Headquarters country.

a/ in operation.

b/ Functions concluded.

- iii) Decision No. 8, article 3. To elaborate and implement specific projects for the construction of housing for the low-income population and other constructions of social interest.
 - iv) Decision No. 13, article 1, paragraph 6. For ocean and fresh water products.
 - v) Decision No. 36. To establish a Latin American Technological Information Network (RITLA). This was originally the initiative of only certain countries.
 - vi) Decision No. 6. Latin American Co-operation for the Reconstruction of Nicaragua.
 - vii) Decision No. 127. To establish a Regional Food Security System (CASAR).
 - viii) Decision No. 132. Support to the Republic of Argentina.
- b) Action Committees put underway on the initiative of certain member States
- i) On the manufacture of fertilizers, including certain basic raw materials.
 - ii) On the development of crafts.
 - iii) On tourism.
 - iv) On co-operation between governmental entrepreneurial agencies concerned with foreign trade (OECEG).
 - v) On the establishment of the Latin American Information Services Agency (ALASEI).

At its most recent meetings, the Latin American Council of SELA has made a definite effort to relate the Latin American co-operation process to the aim of achieving regional economic security. To this end, it has defined priority areas for co-operation, such as agriculture and food, foreign trade, science and technology, finance and payments, information, and transport and communications. These are at the same time sensitive areas that have to do with the economic vulnerability of the region.

Significant objectives and activities have been established for each area. As a general rule, these objectives are global in nature, i.e., they are not defined within the framework of specific activities but rather they set forth long-term goals, such as the promotion of production and productivity, the expansion of foreign and intra-regional trade, the establishment of co-operation mechanisms in the fields of research and the transfer of technology, and others. As set forth, all these concepts are more designed to describe a strategy than to establish the basis for a programme. In addition, it has been decided that studies should be carried out

/with a

with a view to setting up co-operation programmes in the different areas; these studies would be conducted in close collaboration with the governments and would be analysed at meetings of high-level government experts. To date, the only such meeting that has been held is the one on food security, which gave rise to the creation of the Action Committee on that subject.

It appears that the biennial programme adopted at the Eighth Regular Meeting of the Latin American Council in August 1982, which covers the period from September 1982 to August 1984, has not yet succeeded in modifying a dangerous trend towards a weakening of regional co-operation. Budgetary restrictions and the increasing difficulty of attracting external resources to facilitate the financing of certain projects have forced the Action Committees to considerably cut down on their activities. In those cases in which permanent co-operation has been available, there has been no seed capital with which to overcome the aforementioned limitations.

The Latin American Economic Conference held at Quito gave renewed political support to SELA as the most appropriate forum for promoting the concerted action that Latin America must inevitably take and assigned it a predominant role in the appraisal that must be made of the fulfilment of the commitments deriving from the Plan of Action agreed on by the governments of the region. This undoubtedly means that the regional agency must make a tremendous effort to strengthen Latin American co-operation.

C. HOW INTEGRATION CAN HELP OVERCOME THE CRISIS

1. The potentiality of co-operation

Mention has often been made of the trend towards trade deficits and indebtedness that is characteristic of the peripheral position of Latin America on the international scene. This propensity has been aggravated under the current world circumstances and imports are being drastically reduced in a short-term effort to overcome it. Given the technological structure of production and the patterns of consumption that are prevalent at a given point in time, if a country's capacity to import is lower than the required level of purchases from abroad, activity levels will be too low to provide for full employment and this will in turn affect the levels of unemployment and underemployment. When such restrictions exist, non-essential imports must be restricted and others must be replaced by domestic production, not because of ideological preferences but because of the necessity imposed by historical circumstances, as the strangulation from outside becomes more serious and prolonged. The diversification of domestic production and, in particular, industrialization are structural processes which make import substitution possible and, in fact, go hand in hand with it.

In this paper, an effort is made to explore the possible scope of a strategy for reactivating and developing the Latin American economies which would go beyond national boundaries and could be projected at the regional level through existing co-operation and integration mechanisms or through others that might have to be created.

/Potentially, the

Potentially, the growth of intra-regional trade has a doubly dynamic effect. Over the short term, it allows for the utilization of installed capacity by increasing exports. Moreover, as far as imports are concerned, the efforts made by individual countries to substitute them can, to a large extent, enhance the productive capacity of the region as a whole, thus substantially diversifying the opportunities for substitution. In order for this two-fold effect to take place, it will be necessary simultaneously to strengthen regional trade and financial arrangements in order to make it possible to reduce the use of internationally convertible currencies. To the extent that it did not affect exports to third countries, the intensification of trade and of the concomitant effort to substitute imports at the regional level would free resources that could be used to import from the centres those goods which Latin America is not in a position to produce.

Some preliminary estimates suggest that, in view of the reductions in levels of activity that have already occurred during the first two years of the 1980s, the regional economy should grow at a cumulative annual rate of between 4% and 5% just to recover the level that the per capita product had reached in 1980. The "minimum" average growth rate required would thus be in the order of 4.5%.

In view of the fact that the service of the debt -counting only interest payments- has reduced the region's capacity to import to less than 5% of the gross domestic product, it seems highly dubious that the "minimum" regional economic growth rate of 4.5% can be achieved if this situation continues for any length of time. With such a dismal prospect, the alternative of palliating the external strangulation by intensifying intra-regional trade takes on a new special significance. In 1982, trade within Latin America represented approximately 15% of the region's imports from the rest of the world and around 1.5% of its gross domestic product.

As alternative hypotheses, it may be said that if the growth of trade within Latin America were to accelerate at a cumulative annual rate of 10% to 15%, within 10 years, the intra-regional trade coefficient would be 2.5% or 3.9% of the gross domestic product, assuming that at the same time the growth rate of the gross domestic product remained at the "minimum" of 4.5%. What is important about this hypothetical exercise is that it shows the need to realize that -given the peripheral position of Latin America- a minimum required growth rate of 4.5% can only be achieved with a higher import coefficient, even when imports originate within Latin America. Even though the region's production apparatus is not comparable to that of the industrial centres, it is still much larger and more diversified than that of any individual Latin American country taken by itself.

The expansion of trade within Latin America must rely on structural foundations that are very different from those which govern Latin America's trade with the centres. This may be seen by looking at two very different options that are open to the Latin American countries in the present world situation.

Under the first alternative, the Latin American countries do not establish any difference between intra-regional trade and trade with the rest of the world. Consequently, they try to export their products to each other as much as possible and to reduce their reciprocal imports to a minimum in order to alleviate the

/shortage of

shortage of foreign exchange. Each Latin American country, taken individually, is able, at least to some extent, to control its imports, including those which originate within the region. The reduction of imports from within the region by all the countries will also, of course, affect intra-regional exports. Consequently, not only will it be impossible to attain the two objectives sought by the individual countries -to increase exports and reduce imports- but also, the total value of intra-regional trade will fall, to the detriment of all the individual countries. What is the root of this behaviour? It is, of course, their overriding need to obtain increasing foreign exchange surpluses in order to apply them to the service of the external debt under the recessive adjustment policies currently being implemented. Assuming that reciprocal trade among the Latin American countries will not, over the medium term, show any major imbalances, the only way to bring in "fresh" foreign exchange to the region is to export more to the rest of the world, especially to the centres, and/or achieve a positive net flow on the balance-of-payments capital account.*/ Nevertheless, by taking the aforementioned approach, the Latin American countries would be in a "zero sum game" in which the positive balances of intra-regional trade which some of them might obtain would be offset by negative intra-regional trade balances affecting others. Thus, by trying to obtain a modest and fleeting net surplus of foreign exchange, some countries would end up by reducing intra-regional trade and jeopardizing the possibilities for domestic reactivation of the countries of the region as a whole.

The second option is based on a sort of "regional awareness" of the need to sustain and increase the levels of reciprocal trade. There is a logical foundation to this second approach. If all the Latin American countries increase their reciprocal imports, the immediate result will be that they will also increase their reciprocal exports.**/ At the same time, through pre-existing clearing mechanisms, a substantial part of that trade can be carried out with a minimum expenditure of convertible currencies. The situation with respect to Latin America's trade with the centres is not analogous. If all the Latin American countries increased their imports from the centres -and this did in fact happen during the last half of the 1970s- they would incur a trade deficit as well as a level of indebtedness the explosive potential of which is already evident.

It must be recognized however, that the process called for under the second option calls for a high degree of trust and regional solidarity. The individual Latin American countries only control, at least partially, the value of their own imports, but they cannot control their neighbours' imports. Consequently, high-level political commitments would be required to guarantee the reciprocity that is essential to the maintenance and expansion of intra-regional trade. One might think that there is no immediate and direct commercial advantage that might compel every Latin American country to increase its intra-regional imports precisely at a

*/ If this is not possible, the other alternative for increasing the net availability of foreign exchange would be to save some of it, precisely through the net substitution of imports.

**/ One problem that has not been entirely resolved is that of the extent to which each country will be able to contribute towards expanding exports. This is discussed later on.

time when it must reduce its total imports. The commercial advantage, as indicated above, will depend on the other countries' also fulfilling their promise to do likewise.

The dilemma might be summarized as follows: if all the countries begin to intensify their intra-regional trade, they will obtain clear economic and financial advantages; however, if only some of them do this and the others do not, then there will be no advantage to the former and instead they will probably be harmed.

There is, however, a group of countries that are in a better position to promote both the import substitution process and the intensification of intra-regional trade. These are the large countries and some of the medium-sized countries which carry a great deal of weight -or could do so- in intra-regional trade. Some of them, such as Argentina, Brazil and Mexico, export a relatively high volume of manufactures to the region. In the case of Venezuela, because it is an oil exporter it has a high purchasing power. These countries could increase their intra-regional sales if they first increased their purchases from the region. Because they have a more diversified production capacity, they are able to offer the region a much wider variety of products.

This is where the great structural difference between Latin America's trade with the centres and trade within the region becomes evident. Under the present circumstances, if the Latin American countries that have a greater export capacity increase their imports from the centres, they will only be increasing their "external asphyxia". However, if they substantially increase their Latin American imports, they will probably be able to pay for them by exporting manufactures that could replace certain products which the relatively less developed countries of the region now import from the centres.

The growth of trade within Latin America is seriously hampered by the lack of diversification of production in the relatively less developed countries. Therefore, if the relatively more developed countries are able somehow to overcome this limitation by increasing their imports from the relatively less developed countries, the opportunities and conditions for a short-term dynamic growth of trade within Latin America will improve.

Another problem is the lack of up-to-date and detailed information regarding the import requirements and export potential of the markets of the Latin American countries. Some attempts have been made to remedy this deficiency, but the results have not yet been entirely satisfactory.

The operation at the subregional level of centralized information agencies that could rapidly provide highly disaggregated data on all the countries belonging to the same scheme, e.g., ALADI, would make it possible to have lists of products the export supply of which could easily be expanded in a short time. Moreover, the countries could present equally disaggregated lists of imports, showing the share of each product that is imported from the centres separately from that which is imported from ALADI countries. It would thus be possible in a short time to develop a list of products which, on the one hand, could be exported by a given

/Latin American

Latin American country, and which, on the other hand, are mostly imported from the centres by another Latin American country or countries. It would be a question of taking advantage of pre-existing installed industrial capacity and potential production capacity that could be reactivated.

It is interesting to examine the information regarding the contribution which each member country of ALADI makes to trade falling under this integration scheme and how important this trade is to each one compared with its trade with the rest of the world (see tables 33 and 34). In the first place, it should be noted that in 1982, the joint share of Argentina, Brazil and Venezuela in exports and imports among all the member countries of ALADI amounted to 61.5% of exports and 58.8% of imports. The countries which had the lowest share in intra-regional trade were, naturally, the relatively less developed countries (Bolivia, Ecuador, Paraguay and Uruguay) which, during that same year, contributed 13.4% to exports and 11.4% to imports within ALADI.

In the second place, it should be noted that Bolivia, Paraguay and Uruguay were the countries whose overall trade was most closely linked with ALADI countries. In fact, their imports and their exports from and to ALADI countries accounted for more than 30% of their overall trade. For example, 50.8% of Paraguayan exports went to ALADI countries and 47.4% of its imports came from ALADI countries. Bolivia purchased 32.7% of its imports from ALADI and sold 51.8% of its total exports within the zone. Finally, Uruguay sent 30.7% of its exports to countries in the zone, while it purchased 41.6% of its imports from ALADI countries. Thus, it may be said that in 1982 the countries that were most closely linked to ALADI were those whose domestic markets were relatively small. The exception to this rule was Ecuador which, although above average as regards participation in ALADI, was not so closely linked to it as the three countries just mentioned, perhaps because of the fact that it is an oil-exporting country.

The two major petroleum exporters of the region, Mexico and Venezuela, have the lowest level of trade within ALADI because of the fact that they both export and import from and to the region a much lower share than the average for the remaining member countries. In light of the existing circumstances, it is to be hoped that Mexico and Venezuela might make a greater effort to increase their participation in intra-regional trade. In brief, the above facts seem to indicate that there are differences in the potentiality and the importance of the role the different ALADI countries play in the expansion of reciprocal trade.

In connection with the products which might be replaced by regional production, consideration might be given to the potentialities of ALADI countries in this regard. To begin with, it is important to note that on average 85% of the total imports of the countries belonging to this integration scheme come from outside the zone; in 1982, imports from third countries amounted to around US\$ 60 billion. In 1980, the composition of imports from outside ALADI to all its member countries taken together was the following: foods, 10.3%; agricultural raw materials, 2.0%; fuels, 17.3%; minerals and metals, 8.0%, and manufactures, 62.1%. In addition, whereas during that same year the ALADI countries exported to third countries more than US\$ 28 billion worth of fuels, they imported almost US\$ 13 billion worth of the same

Table 33

LATIN AMERICA: INTRA-REGIONAL TRADE AMONG MEMBER COUNTRIES
OF ALADI, 1982

(Millions of dollars and percentages)

Country	Exports		Imports		Balance
	Millions of dollars FOB <u>a/</u>	Percentage of total	Millions of dollars CIF	Percentage of total	
Argentina	1 515	15.2	1 535	14.7	-20
Bolivia	464	4.6	159	1.5	+305
Brazil	2 862	28.6	3 586	34.2	-724
Colombia	523	5.2	1 146	10.9	-623
Chile	700	7.0	824	7.9	-124
Ecuador	403 <u>b/</u>	4.0	259 <u>b/</u>	2.5	+144
Mexico	849	8.5	548	5.2	+301
Paraguay	166	1.7	318	3.0	-152
Peru	437 <u>c/</u>	4.4	612 <u>c/</u>	5.8	-175
Uruguay	314	3.1	460	4.4	-146
Venezuela	1 767 <u>d/</u>	17.7	1 039 <u>d/</u>	9.9	+728
<u>Total</u>	<u>10 000</u>	<u>100.0</u>	<u>10 486</u>	<u>100.0</u>	<u>e/</u>

Source: General Secretariat of ALADI, Document ALADI/SEC/di 84.9, 21 September 1983.

Prepared by: Information and Studies Unit of the General Secretariat of ALADI.

a/ Bolivia's exports are valued CIF.

b/ Data based on export and import licenses granted by the Central Bank of Ecuador.

c/ Estimates by the Information and Studies Unit, on the basis of a coverage of 87% for exports and 85% for imports with respect to total values of the trade concerned.

d/ Estimates by the Information and Studies Unit.

e/ Not relevant.

Table 34

LATIN AMERICA: PERCENTAGE STRUCTURE OF TOTAL FOREIGN TRADE OF MEMBER COUNTRIES OF ALADI, BY DESTINATION AND ORIGIN, ALADI-REST OF THE WORLD, 1982

Country	Exports			Imports		
	Percentages		Total (Millions of dollars FOB)	Percentages		Total (Millions of dollars CIF)
	ALADI	Rest of the world		ALADI	Rest of the world	
Argentina	19.9	80.1	7 624	28.8	71.2	5 337
Bolivia	51.8	48.2	896	32.7	67.3	486
Brazil	14.2	85.8	20 175	16.3	83.7	21 969
Colombia	16.9	83.1	3 095	20.9	79.1	5 478
Chile	18.6	81.4	3 754	23.4	76.6	3 527
Ecuador	18.8	81.2	2 140	13.0	87.0	1 988
Mexico	4.1	95.9	20 921	3.8	96.2	14 421
Paraguay	50.8	49.2	327	47.4	52.6	671
Peru	12.9	87.1	3 376	17.3	82.7	3 532
Uruguay	30.7	69.3	1 024	41.6	58.4	1 107
Venezuela	9.5	90.5	18 628	8.3	91.7	12 491
<u>Total</u>	<u>12.2</u>	<u>87.8</u>	<u>81 960</u>	<u>14.8</u>	<u>85.2</u>	<u>71 007</u>

Source: General Secretariat of ALADI, Document ALADI/SEC/di 84.9, 21 September 1983.

Prepared by: Information and Studies Unit of the General Secretariat of ALADI.

/item, as

item, as may be seen in table 35. The situation with regard to foods was similar, inasmuch as exports amounted to US\$ 19 billion and imports amounted to almost US\$ 8 billion.

There is no question that, as far as both foods and fuels are concerned, the region could achieve a much higher degree of self-sufficiency than it has so far without substantially reducing its exports of those products to third countries; this is the basis of the scheme proposed. In other words, it is assumed that imports of foods and fuels could be efficiently replaced by increasing production within the region without sacrificing exports to the rest of the world.

Viewed from another angle, it should be noted that Brazil is the main importer of fuels (78% of the total in 1980) and that it is also the largest exporter of foods to the rest of the world (45% of that item). On the other hand, Mexico and Venezuela are large importers of foods, while their net exports of fuels are high. If countries that complement each other in this way could be more closely linked, this would appreciably increase intra-regional trade; at the same time, if payment clearing mechanisms were used in this trade, that would considerably improve the balance of payments of both the oil-exporting and the non-oil-exporting countries of ALADI.

Although the above examples refer to very broad categories, with all the simplifications that this implies, they help to illustrate the fact that there is a broad range of possibilities for import substitution and that this could help create a new context for regional trade. Thus, if imports of fuels and foods were diverted from third countries to the zone at rates of 10% and 20%, respectively, this would be equivalent to increasing intra-regional trade by approximately 25%. Actually, the greatest potential for import substitution is to be found in manufactures, as may be seen from the analysis shown in table 35.

In the above paragraphs, certain orders of magnitude have been established which serve essentially as points of reference for an argument that does not in fact depend on them. Up to 1981, the prevailing financial permissiveness made it possible to have large trade deficits. These deficits disappeared at the price of a substantial overall reduction of imports to ALADI countries in 1982; thus, imports fell from US\$ 92.4 billion in 1981 to US\$ 71 billion in 1982, i.e., by 23.2%.

This reduction was largely achieved by substantially reducing levels of activity; however, such a situation cannot be sustained for long. This leads to the conclusion that regional import substitution could enhance the efforts that are being made by individual countries.

The above example of possibilities for short-term import substitution refers to two fields that are of primary importance to regional economic security and development, i.e., energy and food and agriculture. In this regard, an additional comment is in order. If the object is to achieve a short-term reactivation of the Latin American economy and a savings of convertible currencies that are becoming increasingly scarce, the fields of food and energy may well offer opportunities for carrying out reactivation programmes in a relatively short time. In addition, it is known that not only the ALADI countries but the rest of Latin America as well

Table 35

LATIN AMERICA: STRUCTURE OF FOREIGN TRADE OF ALADI COUNTRIES WITH THE REST OF THE WORLD, BY PRODUCT GROUP AND YEAR, 1962-1970-1980

(Percentages of total values)

Country	Food			Agricultural raw materials			Fuels			Minerals and metals			Manufactures			Not classified		
	1962	1970	1980	1962	1970	1980	1962	1970	1980	1962	1970	1980	1962	1970	1980	1962	1970	1980
Exports (FOB)	2 653	4 573	19 487	855	731	2 403	2 340	2 902	28 538	1 076	2 393	7 937	232	704	7 992	14	38	484
Total (millions of dollars)	28.2	24.1	21.8	32.2	23.3	18.8	0.2	0.1	0.6	0.7	0.9	3.0	11.6	15.5	12.1	0.0	0.0	0.6
Percentage distribution	0.1	0.1	0.2	0.0	0.3	1.0	0.0	0.0	0.0	6.1	8.0	7.1	1.3	1.0	0.1	7.1	2.6	2.5
Argentina	31.1	36.2	45.0	20.7	37.1	29.3	0.3	0.5	0.9	9.6	13.1	31.0	10.3	23.7	50.6	14.3	42.1	56.8
Bolivia	13.5	11.3	13.5	2.2	5.3	7.4	2.8	1.5	0.4	0.1	0.2	0.1	4.7	5.5	5.3	21.4	21.1	3.7
Brazil	1.1	1.0	2.4	0.9	1.6	11.9	0.0	0.0	0.1	40.8	42.5	31.0	3.0	2.4	2.4	35.7	15.8	26.7
Colombia	4.1	3.6	3.3	0.2	0.7	1.0	0.0	0.0	4.7	0.0	0.0	0.0	0.4	0.1	0.1	7.1	0.0	0.2
Chile	10.9	10.4	9.7	22.0	14.2	13.9	1.7	1.3	33.4	13.1	7.1	6.9	40.9	42.0	20.8	7.1	2.6	0.4
Ecuador	0.6	0.7	0.4	0.5	0.7	3.7	0.0	0.0	0.0	0.0	0.0	0.0	1.7	0.6	0.1	0.0	0.0	0.0
Mexico	7.6	9.4	2.3	10.2	6.2	3.9	0.3	0.2	2.2	18.0	20.6	15.0	1.3	1.0	4.0	0.0	10.5	9.1
Paraguay	1.7	2.2	1.1	11.0	10.1	9.2	0.0	0.0	0.0	0.0	0.0	0.0	2.6	4.3	2.7	0.0	0.0	0.0
Peru	1.3	1.2	0.3	0.1	0.5	0.1	94.7	96.4	57.6	11.6	7.5	6.0	22.0	3.8	1.8	7.1	5.3	0.0
Uruguay	600	739	7 584	238	337	1 474	297	557	12 685	565	1 123	5 877	4 707	7 882	45 566	45	64	223
Venezuela	3.3	2.7	3.4	18.5	15.7	11.6	13.5	8.4	5.6	28.1	24.6	10.1	19.9	11.6	14.6	4.4	10.9	2.2
Imports (CIF)	3.0	2.8	0.7	0.8	0.3	0.4	0.3	0.2	0.0	0.9	0.8	0.5	1.2	1.2	1.1	0.0	1.6	4.5
Total (millions of dollars)	27.0	22.7	20.2	17.6	14.2	18.1	48.8	57.5	78.0	17.3	24.8	22.0	16.8	21.7	21.1	4.4	23.4	8.1
Percentage distribution	6.3	5.5	5.8	10.1	7.1	6.0	5.7	1.4	3.0	8.7	6.9	5.3	8.2	7.7	6.0	28.9	14.1	14.8
Argentina	8.8	6.8	5.6	4.6	3.9	3.8	6.4	6.1	3.8	4.8	4.6	2.2	6.6	7.5	5.5	2.2	4.7	57.8
Bolivia	2.2	2.6	2.1	0.8	2.1	2.4	0.7	0.5	1.5	1.2	2.0	3.1	1.5	2.3	3.1	0.0	3.1	4.0
Brazil	11.0	22.1	33.9	23.1	30.9	33.9	10.8	13.3	2.0	12.4	16.4	37.0	19.4	23.7	25.3	2.2	3.1	3.6
Colombia	1.0	1.4	0.6	0.0	0.0	0.1	1.3	1.8	0.6	0.2	0.3	0.1	0.4	0.4	0.4	2.2	1.6	0.0
Chile	9.3	7.8	5.2	5.5	4.7	3.4	3.7	1.3	0.4	6.4	4.1	2.7	8.0	4.9	3.4	8.9	0.0	2.2
Ecuador	1.2	0.9	0.4	2.1	2.4	2.2	6.1	5.6	2.8	2.8	0.5	0.8	2.7	1.2	1.2	26.7	15.6	0.0
Mexico	26.8	24.6	22.0	16.8	18.7	18.2	2.7	3.9	1.5	17.2	14.9	16.2	15.4	17.7	18.3	20.0	21.9	2.7
Paraguay																		
Peru																		
Uruguay																		
Venezuela																		

Source: ALADI, General Secretariat, Information and Studies Unit, Department of General Studies.

have a considerable potential production capacity in these areas, at least as far as agricultural and food products are concerned.

As indicated above, however, if trade within ALADI is to be increased on a continuous basis, it will be necessary to achieve import substitution in the area of manufactures. This, however, means that a great effort must be made to coordinate and reach agreement on matters pertaining to import substitution and the expansion of the regional production capacity. Such an effort must be carried out over the medium and long terms, inasmuch as import substitution and the acceleration of intra-regional trade require the strengthening and diversification of the region's industrial production capacity.

To illustrate this point, a brief discussion follows on the structure of the imports of the two main ALADI purchasers, Argentina and Brazil, with a distinction being made between the share of imports which originate in ALADI countries and total imports from all sources (see tables 36 and 37). Unfortunately, the detailed figures that are available only cover the years up to 1981, when imports were very high, a situation which may have affected their composition. Nonetheless, these figures have been used as examples of the categories in which there is room for increasing regional supply in the area of manufactures.

In the case of Argentina, imports from ALADI countries accounted for 20% of total imports of goods from all the world, while manufactures imported from ALADI countries amounted to only 12.7%. The groupings covering fabricated metal products, machinery and equipment, and manufactures mainly of intermediate goods showed the highest level of imports in 1981, i.e., US\$ 4 477 million and US\$ 2 211 million respectively. Of these amounts, 8.4% and 19.6% were supplied from ALADI countries. Within the category of fabricated metal products, machinery and equipment, foreign purchases of electrical and non-electrical machinery amounted to US\$ 3.071 million and only US\$ 235 million worth was imported from ALADI member countries. By the same token, in the group of intermediate goods, Argentina imported US\$ 1 246 million and US\$ 380 million worth of chemicals and plastic products and of iron and steel basic products; of these amounts, its imports from ALADI countries represented 13.2% and 9.9%.

Brazil, for its part, imported US\$ 24.7 billion worth of goods from all the world in 1981 and the share of these imports that came from ALADI countries was 14% (US\$ 3.4 billion). In the category of manufactures, the share that came from ALADI amounted to only 7.2%. As in the case of Argentina, Brazil's imports of manufactures consisted mainly of fabricated metal products, machinery and equipment, of which it purchased US\$ 5.5 billion, with only 3.4% of this amount coming from ALADI countries. As regards intermediate goods, its imports amounted to US\$ 3.5 billion and 10% of this came from ALADI countries. The most important imports under the category of fabricated metal products, machinery and equipment were electrical and non-electrical machinery, which totaled US\$ 4 billion, only US\$ 110 million (2.7%) of which came from ALADI countries. In the category of intermediate goods, the most important were chemicals and plastic products (US\$ 2.4 billion imported) and iron and steel and steel basic products (US\$ 0.7 billion). The average share of these imports that came from ALADI countries --in both categories-- was in the order of 8.5%.

Table 36

ARGENTINA: IMPORTS OF MANUFACTURES a/ FROM THE WORLD AND FROM ALADI COUNTRIES, BY ORIGIN, 1981

(Millions of dollars at current prices, CIF)

ISIC Rev.2 Grouping		World	ALADI	Share
	Total imports of goods	9 426.3	1 887.4	20.0
	I. <u>Total imports of manufactures</u>	<u>7 745.2</u>	<u>984.5</u>	<u>12.7</u>
	A. <u>Manufacture of food, beverages and tobacco</u>	<u>178.6</u>	<u>70.2</u>	<u>39.3</u>
311 and 312	Food (except beverages)	135.2	67.7	50.1
313	Beverages	34.3	2.4	7.0
314	Tobacco	9.1	0.1	1.1
	B. <u>Other industries, mainly non-durable consumer goods</u>	<u>878.9</u>	<u>104.8</u>	<u>11.9</u>
321	Textiles	202.8	34.8	17.2
322	Wearing apparel (except footwear)	167.2	18.4	11.0
323	Leather	12.6	0.9	7.1
324	Footwear	30.6	2.7	8.8
332	Furniture	17.0	1.9	11.2
342	Printing, publishing and allied industries	79.8	7.5	9.4
390	Other manufacturing industries	368.9	38.6	10.5
	C. <u>Manufacturing, mainly of intermediate goods</u>	<u>2 210.6</u>	<u>432.9</u>	<u>19.6</u>
331	Wood and cork	118.4	91.4	77.2
341	Paper and paper products	289.4	99.7	34.5
351-352	Chemicals and plastic products	1 246.3	164.6	13.2
and 356	Rubber	50.3	10.3	20.5
355	Pottery, china and earthenware	15.6	1.9	12.2
361	Glass and glass products	43.5	6.2	14.3
362	Manufacture of other non-metallic mineral products	67.2	21.2	31.6
369	Iron and steel basic industries	379.9	37.6	9.9
371				
	D. <u>Manufacture of fabricated metal products, machinery and equipment</u>	<u>4 477.1</u>	<u>376.6</u>	<u>8.4</u>
381	Fabricated metal products	224.1	32.3	14.4
382	Machinery, except electrical	1 728.8	150.7	8.7
383	Electrical machinery	1 342.5	84.2	6.3
384	Transport equipment	943.1	100.8	10.7
385	Professional and scientific equipment	238.6	8.6	3.6
	II. <u>Other manufactured products</u>			
	Partially refined petroleum and petroleum by-products	233.1	110.1	47.2
	Non-ferrous metal basic industries	106.4	79.9	75.1

Source: ECLA, on the basis of ALADI figures.

a/ Classification according to UNCTAD; includes manufactures and semi-manufactures.

Table 37

BRAZIL: IMPORTS OF MANUFACTURES ^{a/} FROM THE WORLD AND FROM ALADI COUNTRIES, BY INDUSTRIAL ORIGIN, 1981
(Millions of dollars at current prices, CIF)

ISIC/Rev.2 Grouping		World	ALADI	Share
	Total imports of goods	24 771.6	3 455.5	14.0
	<u>I. Total imports of manufactures</u>	<u>9 626.3</u>	<u>689.1</u>	<u>7.2</u>
	<u>A. Manufacture of food, beverages and tobacco</u>	<u>147.4</u>	<u>61.5</u>	<u>41.7</u>
311 and 312	Food (except beverages)	132.6	58.1	43.8
313	Beverages	14.6	3.3	22.6
314	Tobacco	0.2	0.1	50.0
	<u>B. Other industries, mainly non-durable consumer goods</u>	<u>398.3</u>	<u>85.4</u>	<u>21.4</u>
	Textiles	77.6	9.2	11.9
321	Wearing apparel (except footwear)	6.9	0.5	7.3
322	Leather	26.3	23.0	87.5
323	Footwear	2.3	0.5	21.7
324	Furniture	2.4	0.3	12.5
332	Printing, publishing and allied industries	50.9	2.2	4.3
342	Other manufacturing industries	231.9	49.7	21.4
	<u>C. Manufacturing, mainly of intermediate goods</u>	<u>3 549.9</u>	<u>353.5</u>	<u>10.0</u>
	Wood and cork	33.9	30.2	89.1
331	Paper and paper products	224.8	29.4	13.1
341	Chemicals and plastic products	2 358.9	214.0	9.1
351-352 and 356	Rubber	80.1	19.5	24.3
355	Pottery, china and earthenware	0.9	0.2	22.2
361	Glass and glass products	63.0	15.7	24.9
362	Manufacture of other non-metallic mineral products	137.1	0.8	0.6
369	Iron and steel basic industries	651.2	43.7	6.7
371	<u>D. Manufacture of fabricated metal products, machinery and equipment</u>	<u>5 530.7</u>	<u>188.7</u>	<u>3.4</u>
	Fabricated metal products	318.3	18.8	5.9
381	Machinery, except electrical	2 644.0	72.6	2.8
382	Electrical machinery	1 403.6	38.5	2.7
383	Transport equipment	875.2	41.3	4.7
384	Professional and scientific equipment	289.6	17.5	6.0
385	<u>II. Other manufactured products</u>			
	Partially refined petroleum and petroleum by-products	443.5	241.9	54.5
	Non-ferrous metal basic industries	533.5	270.8	50.8

Source: ECLA, on the basis of ALADI figures.

a/ Classification according to UNCTAD; includes manufactures and semi-manufactures.

/In brief,

In brief, the participation of ALADI countries in total imports to Argentina and Brazil was significant (20% and 14%), although the share of manufactures was notably lower (12.7% and 7.2%). In particular, there is considerable room for intensifying intra-zonal trade in fabricated metal products, machinery and equipment. Considering that these two countries account for almost half of all imports within ALADI, it may be noted that the main categories of imports of manufactures cannot easily be replaced by Latin American production and that if such a substitution could be achieved, it would tend to favour the exports of the largest countries. In other words, Argentina, Brazil and Mexico are indeed the countries that are in the best position to supply the items mentioned above.

Even at such a general level, it is clear from the above that a careful study must be made of imports of commodities, foods and manufactures from the centres, with a view to finding out what goods can be replaced by Latin American production, particularly as regards the weakest and smallest countries of the region.

A more detailed study of these categories would surely reveal the existence of a large number of imports that could be replaced by production originating in the relatively less developed countries of the region. It is worth while repeating that in many cases substitution does not always mean finding the same products, but rather reasonably similar products.

Although in the above discussion emphasis has been placed on the possibilities for diverting imports currently received from the centres towards regional producers, it should be noted that the mere existence of Latin American imports from third countries does not automatically mean that substitution is always possible.

It is important to remember that the producers of the centres offer importers in the region favourable financing terms (maturities and interest rates, which are sometimes negative in real terms); this means that the Latin American countries must make significant efforts to try to offer similar advantages.

In addition, there are some imports which simply must be purchased from a given source; such is the case of spare parts for equipment that has already been purchased in certain industrialized countries. Likewise, there are certain longstanding commercial links which by sheer inertia favour the continuation of extra-regional imports. In dealing with facts such as these, it will be necessary to design and apply promotional measures aimed at reversing these trends.

In any event, what is important is to stress that there is a great potential for increasing trade among Latin American countries, but that there are certain obstacles that must be removed.

The foregoing discussion points to three clearly advisable courses of action which, as agreed at the Latin American Economic Conference in Quito, should be taken as soon as possible. They are: i) reaching an agreement founded upon high-level political commitments to halt the decline of pre-existing levels of intra-regional trade (a standstill agreement); ii) strengthening and expanding payments clearing mechanisms; and iii) redirecting government purchasing, in so far as possible, towards the region.

/The agreement

The agreement to halt the decline of trade within the region should be consolidated on the basis of political negotiations aimed at preventing the application of additional tariff and non-tariff restrictions on trade among the countries of the region. The establishment of the regional tariff preference could also contribute to this objective. Nonetheless, a vital portion of this instrument's effectiveness will be lost unless it is accompanied by the discontinuance and reversal of the application of non-tariff barriers, since they are seriously prejudicing trade within Latin America at this time. In any event, the adoption of the regional tariff preference has an additional significance in and of itself as a ratification of the political will to progress on a multilateral basis towards more advanced stages of economic integration and to increase the cohesiveness of the region vis-à-vis the rest of the world.

Bringing trade restrictions within the region to a standstill is no more than a minimum defensive measure which is clearly insufficient under the present circumstances. It is actually a question of making an energetic effort to divert imports originating in the centres by means of reciprocal trade, with the object of saving foreign exchange and reactivating Latin American production. From this standpoint, improved and strengthened payments clearing mechanisms, in conjunction with intra-Latin American government imports, are two potentially very important tools for promoting integration, if there is a sufficient political capacity and will to use them with determination. These two approaches would provide one another with feedback. On the one hand, the consolidation and interconnection of existing clearing mechanisms, together with the extension of the time periods allowed for clearing, would increase the opportunities for reciprocal trade with respect to both its geographic coverage and the type of transactions for which the mechanism is used. On the other hand, the expansion of trade -and particularly a diversion of imports from the centres promoted by a resolute government purchasing policy- would increase the usefulness of this financial mechanism in achieving the common goal of saving foreign exchange. It must therefore be stressed that the joint application of both methods can considerably augment the beneficial effect which each would have separately.

However, in order to complete the list of the types of financial supports needed to facilitate and stimulate intra-regional trade, it would be highly desirable to extend the use of payments clearing mechanisms to cover commodities and service activities, including tourism. Creating a Latin American unit of account and increasing the amount of credit available to finance trade -especially the long-term credit required for capital goods- are additional measures which would help to consolidate new trade flows within the region over the long run.

It should be borne in mind that government purchases in Latin America account for 40% of the region's total imports.^{31/} It is likely that, given the magnitude of the current crisis in Latin America, a fraction of these purchases are being diverted towards the respective national bidders in each country. Nevertheless, if a firm commitment could be achieved to redirect that portion of State imports which Latin America obtains from outside the region, it could boost intra-regional trade sharply. Diverting 10% of these purchases from outside the region could raise the coefficient of intra-regional trade by over three percentage points, thus increasing its level in real terms by over 20%. It is highly probable, however,

/that the

that the diversion of public sector purchasing could be much greater, especially in the product lines of energy and foodstuffs, where government purchasing usually plays an important part. The composition of these types of imports, which could easily be diverted on the short term, should therefore be thoroughly examined. Over longer terms, perhaps, an increasing amount of capital goods from the centres might be included which, at least in part, could be supplied by the Latin American countries.

One means of going about this could be to designate a priori a percentage of State purchases to be diverted towards the region (e.g., 10%), and to exchange up-to-date lists indicating the composition of government purchases from the rest of the world in order to provide a basis for reciprocal negotiations aimed at increasing trade within Latin America. Linkages would be created which could become more established and comprehensive over the medium and long term, provided that regional supply could progressively adapt itself to this particular demand structure. With respect to increasing reciprocal government purchasing of capital goods, there would be a need for financing which makes regional products competitive (in view of the long-term financing characteristic of this type of transaction), as well as preferences in connection with the public bidding called for by the governments. Placing emphasis on the mechanism of government purchasing does not involve a bias towards State ownership, since this type of regional purchasing power would function as an important factor in reviving private activity in the above-mentioned product lines as well as others which would grow out of the operation of such a mechanism for the exchange of supply and demand among the countries of the region.

2. Trends towards bilateralism

The difficult economic conditions being experienced by the vast majority of Latin American countries have forced them to seek various alternative methods of reducing imports and increasing exports in order to offset the increase in their current account deficit on the balance of payments, which has primarily been caused by the external debt service in recent years.

The future outlook with respect to net external resource flows conjures up the prospect of new and more painful adjustments in the Latin American economy, as well as a more pronounced trend towards restricting and controlling imports as a means of continuing to reduce its deficit in the trade of goods and, in so far as possible, to produce a surplus.

The creation of a surplus in the trade of goods would thus undoubtedly be a priority objective for most of the countries in the region. This goal can be achieved through two different and complementary routes. The first would be to restrict imports and expand exports. In so far as aggregate world demand does not regain a reasonable growth rate, the objective of increasing exports will have to prevail over the protectionism of the industrialized countries as well as the competition of the exportable surpluses which are generated by an international economy in a recession. This then leaves the alternative route of continuing to reduce imports to the minimum possible levels which are in keeping with viable rates of development in relation to the needs arising out of population growth and the legitimate aspirations of countries which are still far from attaining acceptable living standards for most of their inhabitants.

/The industrialized

The industrialized countries, for their part, have been using various controls to balance their foreign trade. These include the use of their bargaining power to obtain "voluntary" restraints with respect to exports as well as administered trade practices or methods of regulating it on a bilateral basis. When the bargaining power of the parties concerned is comparable, administered trade may lead to more balanced trade flows, particularly as regards their composition and value. On the other hand, the use of measures to restrict trade with less developed countries will only accentuate the structural imbalances which are detrimental to the latter.

The trends towards bilateralism in Latin America have come about as a direct result of the need to limit the use of foreign currency resources, particularly in emergency situations such as those experienced by the region during the Great Depression of the 1930s, in the Second World War and at present.

An attempt has been made within the integration schemes to do away with permanent surpluses or deficits among the member countries. This is not always possible, however, since each country has very different export potentials.

Due to its unquestionable and supreme importance, the search for a global equilibrium in the region's trade should essentially be aimed at the elimination of the asymmetrical aspects of its trade with the industrialized countries, not only because of the constant tendency towards a trade imbalance which is occasioned by the unfavourable evolution of the terms of trade with these nations, but also because of the similar pattern in the balance of services. It is clear that attempts to offset these imbalances with the industrialized regions on an individual basis will always falter due to their unequal bargaining power.

A number of quite complex situations exist within Latin America, such as those faced by countries with energy deficits or with a limited development potential. Both type of countries are prone to deficits in their external sectors, which are reflected not only in their relations with other countries, but also within the integration schemes to which they belong.

At the regional level, the problem is that if all the countries attempt to obtain a surplus in their intra-regional trade by reducing imports, such an endeavour then becomes both conflictive and impossible, and the adjustment will be based on a decline in trade within Latin America. If each country attempts to balance its trade flows with each other country in the region, the outcome will be that the bilateral balance will be determined by the export potential of the country with the lower supply capacity, which will undoubtedly decrease the total trade of Latin America. On the other hand, if each country's reciprocal trade is balanced multilaterally with the region as a whole, then the equilibrium will be attained through a greater use of each country's export capacity and, at the same time, the levels of intra-regional trade will be higher.

Consequently, bilateral agreements could be reserved for that part of trade which cannot be cleared at a multilateral level and which entails special imbalances, as might be the case with net imports of hydrocarbons or of other products which are essential to the development and economic security of countries suffering from marked and ongoing deficits.

/The payments

The payments clearing agreements of ALADI, the CACM and CARICOM are a good example of how the primary functions of a bilateral system can sustain greater volumes of trade with the least possible use of convertible financial resources when the corresponding bilateral transactions are placed on a multilateral footing. The great challenge then becomes to find additional formulas for incorporating higher levels of reciprocal trade, in keeping with the concept of a multilateral balance, which will make the dynamic growth of regional trade possible.

The interconnection and expansion of payments clearing systems, the creation of a Latin American unit of account, the incorporation of services into clearing mechanisms and the possibility of obtaining additional resources to finance a greater trade flow -and, in particular, increasing the term involved so that capital goods may be included- are some of the measures which Latin America will have to put into effect soon if it is to avoid negating the efforts being made to overcome the complex situation prevailing at present by attaining a higher level of reciprocal trade. This was what was agreed at the recent Latin American Economic Conference at Quito. If bilateral balances continue to be pursued, some temporary relief may be obtained but, in the long run, this will result in a definite setback with respect to the solution sought by all the countries of the region, i.e., achieving greater symmetry in their intra-regional trade, and especially with the industrialized centres.

Lastly, one mechanism which would undoubtedly help to create a multilateral consciousness with respect to trade would be the actual establishment of a regional tariff preference and a freeze on the use of non-tariff barriers in reciprocal trade within Latin America.

3. The Latin American Economic Conference (Quito, 9 to 13 January 1984)

As indicated in the preceding sections, the Latin American countries, to a greater degree than those of other developing regions, have had to confront extremely serious economic, political and social situations, largely as a result of the world economic recession and the changes in financial variables which it has brought in its wake. In addition, the policies of adjustment to the new financial conditions, in particular the high real interest rates and the reversal of the net flow of capital to the region, have not been very equitable for Latin America.

This phenomenon has had many consequences. Let us simply say that when Latin America's imports declined, not only was the level of its economic activity considerably affected, but efforts carried out over more than two decades to consolidate the flows of trade among the Latin American countries and to practice economic co-operation and integration were openly impaired. Even more serious, however, is the fact that in order for the countries to procure resources for interest payments, the private banking system has required prior agreements with the International Monetary Fund, which has imposed strict adjustment policies that have worked against the political, economic and social stability of some Latin American countries.

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In this context, the President of Ecuador, Osvaldo Hurtado, requested the Executive Secretaries of ECLA and SELA to submit concrete proposals for a joint Latin American response to the international crisis. This request began a political process which has developed into the meetings of presidential representatives held in Quito and Santo Domingo, in May and August 1983, respectively, and which culminated once more in Quito at the Latin American Economic Conference, held in January 1984, at which a Declaration and Regional Plan of Action for meeting the international crisis were adopted.

The request of the Ecuadorian leader clearly reflected the concern of one relatively less developed country of Latin America with the limited bargaining power of the countries, considered individually, in the face of impositions by the international private banking system and the Fund in the current crisis situation. It also stressed the growing awareness that the peoples' standard of living cannot deteriorate any further, since the limit of social tolerance has been reached. In short, it was a sort of early warning of the risks of excessive regional fragmentation in order to confront the challenges imposed by both the external sector of the Latin American economy and the legitimate desire for progress of all the countries.

The foregoing explains the favourable reception by the Latin American governments of the initiative of the President of Ecuador, which was reflected in the high level of the meetings of presidential representatives in Quito and Santo Domingo, where the study by ECLA and SELA was examined,^{32/} and of the Latin American Economic Conference.*/ However, above all, the reception indicated that there is a high degree of political commitment to carrying out a joint regional initiative to meet the crisis.

It should also be pointed out that the Latin American governments are fully aware that the region's options in view of the international situation, although they have a technical basis, are fundamentally political. The Latin American Economic Conference was therefore situated at the level of personal representatives of the Heads of State and of Government of Latin America. This institutional formula, the only one of its type, should lead to the implementation of substantive political decisions in the relevant bodies, given the leading role which has been played by governments in all of its phases.

The process begun by the initiative of President Hurtado has demonstrated the extremely prudent and realistic attitudes of the governments, who have agreed that the programme of action towards the international crisis should concentrate on few areas. This is of unquestionable importance in view of the economic situation. The areas in question are trade, financing, fuel supply, food and essential services. In this way, regional integration and co-operation processes will be strengthened and will become real variables increasing the countries' negotiating power in the international order.

*/ The Latin American Economic Conference was attended by four Presidents, one Prime Minister, three Vice-Presidents, five Ministers of Foreign Relations, thirteenth Ministers of State and several personal representatives of Heads of Government.

There is no doubt that the Latin American Economic Conference, held in Quito from 9 to 13 January 1984, was extremely significant, in particular because it has meant resuming the process of uniting Latin America and the Caribbean, in the midst of factors and circumstances which tended more to separate the countries of the region than to foster a meeting around common objectives. By strengthening the integration and co-operation systems and giving renewed importance to the regional market as a basis for initiating a process of economic reactivation, Latin America can now aspire to a future more in keeping with its real economic and social development needs.

This is the purpose of the set of measures adopted by consensus at the above-mentioned Conference. They comprise the Plan of Action which the governments of the region have resolved to carry out, committing their entire political will to the enterprise.

With regard to regional co-operation, the Declaration of Quito states, in paragraph 7, "The crisis demands urgent solutions by means of joint actions founded on regional co-operation and on the forging of a common position aimed at strengthening the region's capacity for response. This response should be directed most immediately towards the most critical situation and at the same time form part of a medium- and long-term perspective in order also to deal with the structural causes of the crisis, thereby increasing international co-operation and making it more effective for development under conditions in keeping with the scope and seriousness of the present-day economic crisis". Paragraph 12 of the Declaration adds that "The Latin American and Caribbean response to the crisis is based on the need to complement the efforts of each country and those made at the subregional level by strengthening regional co-operation and integration".

It is therefore fully evident that the governments of the Latin American and Caribbean countries are continuing to grant the highest priority to regional integration and co-operation, within a medium- and long-term development process, as a joint option not only to overcome the effects of the crisis, but to lessen the structural problems of the asymmetrical relationship of the countries of the region with the industrialized nations.

In this conceptual and political framework, the Plan of Action has the particular quality of combining measures designed to solve immediate problems, such as the external debt service, with other measures closely connected to the development and economic security of the region, such as energy, food and increasing intra-regional trade.

The annex contains the complete text of the Declaration and Plan of Action of Quito. From the latter it may be seen that the tasks agreed on in the field of intra-regional co-operation focus, as has been indicated, on the areas of financing, trade, food security, energy co-operation and services.

The section on financing contains agreements on the basic criteria which should govern the renegotiations and servicing of the external debt. It also states specifically the objectives which should be fulfilled by the financial and credit

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mechanisms for support to the expansion of trade and development. In particular, the need for strengthening reciprocal payments and credit systems is raised, in order to achieve a reduction in the utilization of convertible foreign currency in regional trade, support an increase in trade of goods and services and offset the imbalances in intra-regional commercial transactions. Importance should also be given to "the relationship between multilateral payment clearing mechanisms and commercial negotiations, as well as to the establishment of the means for attracting resources from outside the region to complement the promotion of trade among our countries". Export promotion and development financing measures should also be strengthened.

In the area of intra-regional trade, the Conference adopted a commitment not to introduce new non-tariff restrictions on imports from Latin America and the Caribbean and to "eliminate or reduce progressively existing restrictions", through negotiations whose procedures would be agreed upon during 1984. In order to lay the bases for an increase in trade of goods and services within the region, the commitment should be complemented with the establishment of a regional tariff preference which will help "divert and create trade currents" towards Latin America and the Caribbean. The ALADI countries were urged to "bring to fruition negotiations for establishing regional tariff preferences during 1984, as stipulated in Article 5 of the Treaty of Montevideo of 1980, in accordance with Resolution 5 of the Council of Ministers, through an Agreement of Regional Scope, open for membership to those Latin American and Caribbean countries which are not members of ALADI". It was also agreed that bilateral or multilateral trade negotiations should be intensified in order to promote "within the framework of the integration systems, operational mechanisms that will make it possible to take advantage of government procurement capacity by seeking to import from regional suppliers of our imports". At the same time, regional supply and demand for goods would be used to obtain better conditions in the international market, further the industrialization process and increase participation in the supply of the equipment needed by the countries of Latin America and the Caribbean, as well as to foster the creation of new Latin American multinational trade enterprises.

Regional food security is another important aspect of the Plan of Action of Quito. In this area, all the countries of the region are called upon to join the Committee for Action on Regional Food Security (CASAR) of SELA, and an appeal is made to all regional and subregional international organizations in charge of food supply and production in Latin America to co-ordinate their efforts in the framework of that Committee. The need is underscored for each of the countries to formulate national food plans, as well as the need for the regional food system "to support and complement existing subregional projects and programmes". In order to achieve greater regional self-sufficiency in basic foodstuffs, priority would be given to "the exchange of food in all actions considered by the Conference with regard to the promotion of intra-regional trade, including transportation, the elimination of barriers, the establishment of the Regional Tariff Preference and, if required, financing".

In the area of energy, it was agreed that there was a "need to intensify energy co-operation in order to achieve regional self-sufficiency in energy and technological autonomy. For this purpose the region's capacity to increase and

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diversify the production of energy and rationalize its consumption should be strengthened in order to support its economic development, reduce its dependence on a limited number of energy sources, overcome its vulnerability with regard to extra-regional markets and increase the coefficient of technology and capital goods originating in Latin America and the Caribbean in the process of production, transformation and distribution". Some of the initiatives planned in this respect are: i) to strengthen the energy planning system, OLADE and the Latin American Energy Co-operation Programme (PLACE); ii) to expand and improve the supply of energy in the region and identify multinational energy projects that will promote integration among the countries of the region; iii) to promote agreements among the State-owned corporations of the region that deal with energy to strengthen their technological capacity and ability to supply capital goods; iv) to promote the channelling of international financial resources particularly towards the development and use of new and renewable sources of energy, and v) to promote the establishment of multinational Latin American petroleum fleets that will incorporate the region's shipping resources.

Finally, the Plan of Action stresses the need to adopt, within the broad area of the services sector, "joint and co-ordinated positions in international organizations truly competent" to deal with that subject, especially with regard to the international trade of services. It was also agreed to co-ordinate and unite efforts to develop indigenous technologies in the region in order to disseminate and transfer them to direct users in the different fields of production. Co-operation activities should also be identified in specialized service areas, such as transport, insurance and reinsurance, as well as ways of granting preferential treatment to firms that provide national services, particularly with regard to consulting and engineering firms, in the implementation of national or multinational projects.

In summary, it may be stated that the Latin American Economic Conference has given special attention to tasks that were indispensable for resuming the path of regional integration and co-operation, as means of laying the bases for a less vulnerable and more solid economic development. The Conference is, of course, only a beginning; however, since it is an event of such significance, it may be considered a milestone in relations between the countries of Latin America and the Caribbean. The next and certainly more difficult stage will consist of implementing the agreements of the Plan of Action of Quito.

III. SUMMARY AND CONCLUSIONS

One of the first conclusions which can be drawn from this document relates to the extreme external vulnerability which is a structural feature of the region. Latin America's current debt crisis is one of the most immediate and visible manifestations of this. At a deeper level, the region relies on the markets of the centres for the bulk of its foreign exchange earnings in hard currencies. It also relies to a significant extent on the North for the imports which are vital to the maintenance of its levels of activity and for access to the technology and capital equipment needed to mobilize its development. This structural picture is repeated on a larger scale in the international capital market -particularly in the present crisis situation- through the maintenance of a distressing status quo in the process of refinancing the external debt, whose cost -especially in terms of interest payments- is determined by policies over which Latin America has no control.

Moreover, it is clear that the development of Latin America in the immediate future will be strongly influenced by a series of negative factors. The first of these factors is the region's extremely large debt, whose servicing will continue to consume a large percentage of export earnings. Secondly, as long as restrictive macroeconomic policies and high interest rates persist in the centres, there will continue to be obstacles to an overall sustained recovery in the economies of the industrialized countries which could boost demand and international trade, and thus have a positive effect on the economies of the countries of the region. Thirdly, although some recovery is to be expected in the prices of the region's commodity exports, which account for 80% of its export earnings, it appears highly unlikely that the price levels of the early 1980s will be regained soon. Fourthly, the intensification of the protectionist policies of the centres will continue to pose an additional obstacle to the growth of international trade and will make itself felt in a reduction of investment in activities oriented towards the exportation of commodities and, particularly, of manufactures in many countries of the region. Fifthly, it has become clear that the countries of Latin America can expect very little from international co-operation as regards the solution of their most pressing problems so long as the bases, rules and power relations governing the North-South dialogue are not revised in a way which will produce concrete and positive results for the developing countries. Finally, the continuance of the recessive adjustment policies which the countries of the region have had to adopt could reach the limits of social and political tolerance of the Latin American countries, thus introducing an additional element of instability.

In view of this extremely complex and delicate situation, it becomes clear that it is a matter of special priority for the countries of the region to work together to achieve a new development style that will be more dynamic and equitable as well as enabling them to be more flexible in dealing with changes in the international economy.

At the same time, Latin America should act to strengthen co-operation and integration within the region as well as co-ordination and concerted action at the international level. Co-operation among the countries of Latin America based on their own potential would not only boost economic growth and create closer bonds

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among them, but would also strengthen their negotiating power and lend it greater credibility vis-à-vis the rest of the world. In short, any serious "inward" step taken by Latin America in the area of regional co-operation and integration will necessarily have an "outward" effect by increasing the impact of the region's presence in the international sphere. The prospects in this respect have become brighter as a result of the fact that, despite the strong pressures to which the co-operation and integration processes have been subjected by the crisis, a large part of the institutional framework which supports them has been preserved.

It must be granted that there are many complex reasons why efforts to tighten the bonds among the countries of the region have flagged. In many cases, however, a decisive factor in this is that the idea of development as a primary objective of social and economic strategies, and efforts to promote it, have ceased to be viewed as of paramount importance. Economic development, conceived of as a real phenomenon of societal change, must reassume its leading role. This would aid in progressing past those approaches which, being incapable of encompassing a long-range view, have been confined to seeking short-term macroeconomic balances based mainly on the manipulation of monetary/financial variables.

Furthermore, in so far as the bilateralism and "managed" trade practices prevailing in the relations among the centres take the place of multilateralism in the reciprocal trade among the countries of Latin America, this too will place additional pressure on regional co-operation and integration. Moreover, although the dynamic opportunities offered by countertrade arrangements and other bilateral instruments should be taken advantage of in the immediate future, the lack of multilateral instruments which would operate and move forward in parallel with them could have undesirable and unnecessary results, inasmuch as Latin America's trade imbalances basically originate from its asymmetrical position in the world economy. This is the area in which a thorough-going solution to the present problems should be sought. The indebtedness which has resulted from recent financial permissiveness has only served to exacerbate the problems stemming from that structural situation.

On the other hand, the serious impact of the international crisis on the Latin American economy obliges the governments to formulate emergency measures in order to alleviate its harmful social and political effects and to establish a new basis for the resumption of the course of economic and social development.

Against this background, the initiative of the President of Ecuador, Dr. Osvaldo Hurtado, met with an emphatic regional response which led to the recent Latin American Economic Conference (Quito, January 1984). The goal of this important meeting was precisely that of finding a joint solution to the problems affecting Latin America. Specifically, the deliberations were directed towards taking action-oriented decisions relating to trade, international financing, and food and energy supplies within the framework of a necessary reactivation of regional co-operation and integration processes.

Increasing trade among the Latin American countries -by means of a regional tariff preference, imposing a standstill on trade restrictions, the extension and improvement of clearing systems for reciprocal payments and credits, and the use of

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the State's purchasing power to shift import orders towards the countries of the region- is thus one of the most important methods chosen by the governments of the region for alleviating the complex situation which exists at present and for laying the foundations for further development in the future.

In connection with financing, at Quito it was felt that, in addition to creating machinery to support the expansion of trade among the countries of the region, it is also essential to maintain united positions within international bodies in support of increasing world liquidity and obtaining additional resources on terms which alleviate rather than exacerbate the current problem. With respect to the external debt, some common guidelines were adopted with respect to rescheduling debt payments and the application of adjustment policies which would afford the countries' greater negotiating capacity and allow them to turn once again to long-term development as their primary concern.

At the same time, improving and increasing the supply of food, energy and basic services are steps which must accompany the above measures in order to reduce the region's extreme vulnerability and to strengthen the foundations for greater regional economic security.

Intensive efforts must be devoted to strengthening the region's negotiating power. Latin America has a significant potential as regards the most important spheres of international economic relations, but this potential has not been translated into action or, above all, concrete results. This negotiating power needs to be organized and used to fulfil the primary aspirations of Latin America, which have been voiced on so many occasions, most frequently together with the other developing countries in the course of the North-South dialogue.

With respect to primary commodities, there is a need for a new approach and structure to govern commodity trade, as set forth originally in the UNCTAD Integrated Programme on Commodities. Remedying the shortcomings which exist with respect to prices, income, marketing systems, distribution, transport and local processing of these products continues to be essential. In international trade, the objective must be to arrest and reverse the protectionist tendencies of the industrialized countries and to make progress in the direction of true liberalization by establishing a set of rules and principles which will lead to a more just and equitable system of international trade. As regards monetary and financial matters, the goal is a system which will respond more efficiently to the present difficulties and which will share the burdens of adjustment equally among creditor and debtor countries.

All these actions will require significantly greater unity among the Latin American countries as regards the future objectives, procedures, strategies and priorities pertaining to their joint action at the international level. The region must also organize itself so that it is able to give uniform treatment in its commercial dealings with the developed countries that employ protectionist policies or modes of "managed" trade which run counter to its interests. Viable alternatives must be sought for achieving the goals pursued, and these alternatives must be based principally on the region's own potential rather than on "concessions" granted by the industrialized countries. The strategy for the future also calls for close

study of the potential influence and scope of the joint buying power of Latin America with a view to firstly, purchasing in international markets on the best possible terms; secondly, promoting Latin American exports, particularly of manufactures; and thirdly, heightening the industrialization process within Latin America.

Notes

- 1/ See The crisis in Latin America: present situation and future outlook (E/CEPAL/SES.20/G.25).
- 2/ See UNCTAD, Monthly Commodity Price Bulletin, January 1983.
- 3/ See UNCTAD, Questions about commodities: analysis and proposals for the adoption of new measures, TD/273, June 1983, para. 14.
- 4/ See Preliminary overview of the Latin American economy during 1983 (E/CEPAL/G.1279).
- 5/ Alberto Valdés, Trade in agricultural products between developing countries: Latin America during 1962-1979. Paper presented at the Fourth Meeting of the Econometric Society of Latin America, 19-22 July 1983.
- 6/ See UNIDO, The Capital Goods Industry in Latin America: Present Situation and Prospects, November 1983.
- 7/ See R. Devlin, Debt, crisis and renegotiation: the Latin American dilemma (E/CEPAL/R.342).
- 8/ See Public Law 98-181 of the United States Congress, Section 806.
- 9/ See "Estudios e Informes de la CEPAL" Series, No. 7, Santiago, Chile, September 1981, pp. 106-119.
- 10/ For a detailed analysis and explanation of the Common Agricultural Policy (CAP), see ECLA, op. cit.; SELA, Las Relaciones entre América Latina y las Comunidades Europeas, Buenos Aires, April 1983; FAO, External Constraints on Latin American Agricultural Exports: Case Studies on the Situation of Cereals, Beef, Bananas, Sugar and Cotton, Santiago, December 1982, and, on the EEC side, The Agricultural Policy of the European Community, Brussels, October 1982.
- 11/ See ECLA, Las relaciones económicas ..., op. cit., and also ECLA, Latin America on the threshold of the 1980s, Santiago, November 1979 and The Economic Relations of Latin America with Europe, Santiago, October 1980.
- 12/ For a detailed analysis of this phenomenon, see ECLA: The Economic Relations of Latin America with Europe, op. cit., chapter III.
- 13/ See Commission of the European Communities, General Information Service, The European Community and Latin America, Brussels, 1983. It should be noted that the present value of the European Currency Unit is around US\$ 0.95.
- 14/ See, in this connection, the conclusions adopted at a seminar-workshop held in Mexico, in June 1980, on trade relations between Latin American and Eastern European countries, in "Relaciones económicas de América Latina con los países miembros del Consejo de Asistencia Mutua Económica", Estudios e Informes de la CEPAL No. 12, Santiago, Chile, June 1982, pp. 1-7.
- 15/ See The Wilson Quarterly, Summer 1983.
- 16/ See Marcos Mamalakis, "Una estrategia de desarrollo relacionada con los servicios: Algunas consideraciones básicas", El Trimestre Económico No. 199, July/September, 1983.

17/ International Services Transactions of the United States: Proposals for Improvement in Data Collection, prepared by E.P. Lederer, W. Lederer and R.L. Sammons, for the Departments of State and Commerce and the Office of the Special Trade Representative (STR), January 1982.

18/ For a critical synthesis of the performance of GATT, see UNCTAD VI, Protectionism, trade relations and structural adjustment, TD/274, January 1983.

19/ Resolution 159 (VI) of the Belgrade Conference.

20/ See Decision No. 153 on "Concertación latinoamericana en materia de servicios" ("Concerted action by Latin America in the field of services"), Latin American Economic System (SELA), September 1983.

21/ For a detailed study on the negotiations of the Integrated Programme for Commodities, see Aspectos de una Política Latinoamericana en el Sector de los Productos Básicos, E/CEPAL/R.335/Rev.1, April 1983.

22/ Ibid., pp. 22 to 25.

23/ See, inter alia, UNCTAD, Assessment of the results of the multilateral trade negotiations, Report of the Secretary-General of UNCTAD, TD/B/778, Add.1.

24/ See OECD, Economic Outlook, No. 33, July 1983, and No. 34, December 1983.

25/ See an address given in the American Enterprise Institute in Washington, by the Managing Director of the International Monetary Fund, Mr. Jacques de Larosière, on 5 December 1983.

26/ The following data -unless it is expressly stated otherwise- are taken from OECD, Economic Outlook, December 1983.

27/ The material prepared by Mr. Augusto Bermudez, an ECLA consultant, in the document, "América Latina: Panorama actual de la integración y cooperación", August 1983, has been used in this section.

28/ Point II, 2. (a) of the Plan of Action of the Latin American Economic Conference, Quito, 9-13 January 1984. See annex.

29/ See ECLA, Centroamérica: la exportación de productos industriales y las políticas de promoción en el contexto del proceso de integración económica, E/CEPAL/Mex/1983/L.10, 11 February 1983.

30/ According to preliminary data, in 1983 the exports of Trinidad and Tobago decreased by 10% and those of Guyana by 23%. See ECLA, "Preliminary Overview of the Latin American Economy during 1983", 16 December 1983.

31/ Guillermo Oudarts and Carlos M. Correa, Compras estatales e integración económica, IDB/INTAL, Buenos Aires, December 1982.

32/ Carlos Alzamora and Enrique V. Iglesias, Bases for a Latin American response to the international economic crisis, E/CEPAL/G.1246, 16 May 1983.

ANNEX

DECLARATION OF QUITO

1. We reaffirm the brotherhood and solidarity of our peoples and their aspiration to live within the framework of democratic principles, and we reaffirm our unity in diversity and respect for the sovereign right of all the nations of Latin America and the Caribbean to follow in peace and freedom and relieved of all forms of foreign intervention, their own economic, social, and political paths, rejecting discriminatory or coercive economic measures for political reasons and ensuring the full exercise of human rights and the benefits of progress for all their inhabitants in an environment free of external pressures, threats and aggression.

2. We reiterate our commitment to eliminate once and for all any recourse to the threat or the use of force in the solution of international conflicts. We once again call for disarmament that will make it possible to reallocate the resources squandered on the arms race and armaments towards objectives which contribute to strengthening the development of all the peoples of the world. There is an essential link between the problems of peace and of development, since without peace, development will be unattainable, and without development peace will always be precarious.

3. We express our concern over the worsening of the tensions overshadowing international relations and already engulfing many areas of the planet, thereby constituting a serious threat to world peace. Latin America and the Caribbean do not resign themselves to being the arena of alien confrontation and firmly believe that the region's problems should and can be resolved in our own sphere, thereby ensuring that the Latin America area will be a zone of peace.

4. We reject the interventionism which has recently manifested itself dramatically in the region, and we stress the need to find a negotiated solution to the problems of Central America which arise from the economic, social, and

political conditions prevailing in that area, to which end we lend full political support to the Contadora Group.

We are aware that at the present time the Central American countries are suffering more acutely the economic problems which are affecting Latin America and the Caribbean. Consequently, we wish to offer our support to the Action Committee for the Support of Economic and Social Development in Central America (CADESCA), a Latin American regional mechanism recently established in SELA to assist, *inter alia*, in mobilizing resources for economic and social development aimed at solving the major problems of the Central American people.

5. Latin America and the Caribbean are facing the most serious and intensive economic and social crisis of this century, one which is characterized by unique and unprecedented features.

6. Concerned by the economic and social setbacks of recent years which this crisis has brought about, we expound before international public opinion our profound anxiety over the conditions prevailing in the world economy which are seriously affecting the region's development and stability.

7. The crisis demands urgent solutions by means of joint actions founded on regional co-operation and on the forging of a common position aimed at strengthening the region's capacity for response. This response should be directed most immediately towards the most critical situation and at the same time form part of a medium- and long-term perspective in order also to deal with the structural causes of the crisis, thereby increasing international co-operation and making it more effective for development under conditions in keeping with the scope and seriousness of the present-day economic crisis.

8. This crisis originated in internal and external factors, and our success in surmounting it is largely dependent on the latter, which are beyond the control of

our countries and place serious constraints upon the options open to us for overcoming it. The economic policies of some industrialized countries have severely affected the developing countries and, in particular, those of the region, owing to the vulnerability and dependence of our economies and their increasing participation in international economic relations. These policies have brought about the constant deterioration of the terms of trade, diminishing trade, an inordinate increase in interest rates and the sharp contraction of capital flows. The overwhelming burden of our external indebtedness forms part of this picture.

9. The most harmful social effects of this situation take the form of an increase in unemployment figures unprecedented in our history, of a substantial reduction of real personal incomes and of living standards, with serious and growing consequences for the political and social stability of our peoples, the persistence of which will, in time, result in further deterioration of our economies.

10. In order to make the region more autonomous, we are ready to mobilize the human and material resources potential of Latin America and the Caribbean to formulate a joint response to the crisis affecting us, giving impetus to and co-ordinating the endeavours of regional institutions, for which purpose we pledge all our political will.

11. Adjustments which cause prolonged declines in production, employment and living standards are not compatible with the objectives which we pursue. Consequently, the international community must take concerted action that will enable the countries of the region to continue their development without further delay.

12. The Latin American and Caribbean response to the crisis is based on the need to complement the efforts of each country and those made at the subregional level by strengthening regional co-operation and integration.

13. This response calls for the firm and resolute participation of all the national sectors of our countries, and it will achieve its goals only if the benefits deriving therefrom are fully and effectively extended to the rural and urban underprivileged, who must remain completely integrated in the development process in order to enjoy a dignified life. In this context, the resolve to support, *inter alia*, actions aimed at achieving and maintaining regional food security assumes particular importance.

14. However, the region's efforts alone are not sufficient for surmounting the crisis. It is essential that they be complemented and reinforced by significant external support, principally in the areas of trade and financing.

15. There is a close and inseparable link between foreign trade and international finance. Only the joint handling of the two elements which, among other effects, will enhance our countries' ability to pay—and to which ability the debt service must be adjusted—will contribute to a positive solution of the external debt problems.

16. The attitude of the Latin American and Caribbean governments in recognizing and assuming their obligations calls for an attitude of shared responsibility by the governments of the creditor countries, the international financing organizations and the international private banks in the solution of the external debt problem, bearing in mind, furthermore, its political and social implications. Therefore, flexible and realistic criteria are required in the renegotiation of the debt, including repayment periods, grace period, and interest rates compatible with the recovery of economic growth. Only in this way can continuity be assured in the fulfilment of the debt service.

17. We caution that it is neither fair nor rational that the countries of the region have become net capital exporters, thereby compounding their precarious economic situation which will finally prove to be contrary to the interests of the industrialized countries themselves and those of the world community.

18. Furthermore, we point out that the maladjustment between the fiscal and monetary policies of certain industrialized countries is the cause of the rise in real interest rates which has persisted despite the fact that inflation has been diminished, thereby very seriously exacerbating the present situation. We therefore ask that the

international community make the adjustments necessary to eliminate the causes of this distortion.

19. We reaffirm the urgent need to take measures designed to reform the international monetary and financial system.

20. In addition to the worsening of financial problems, we are witnessing the stagnation and even the decline of world trade levels. World trade has recently ceased to play its role in stimulating the economy and has drastically reduced its contribution towards the availability of foreign exchange for the developing countries. The reduction of imports from the developing countries, imposed by the crisis, lowered trade levels to an even greater extent and has brought about a contraction of their economies.

21. We view with great alarm the increase in the protectionist measures of the industrialized countries, which to a great extent closed their markets to exports from our countries, despite the fact that the volumes exported in no way caused internal problems in the markets of those countries. We once more urge the industrialized countries to abstain from imposing new protectionist barriers and to proceed to dismantle the existing ones.

22. We maintain that actions which restrict access to markets and limit the scope of the General System of Preferences through the application of limiting and discriminatory criteria, such as ranking, quotas, and reciprocity requirements, should be abolished.

23. The prices of export commodities dropped to extremely low levels, bringing about continuous deterioration in the terms of trade in the region. In this light, we propose to adopt and strengthen multilateral actions necessary in order to stabilize prices dynamically, thereby increasing the levels of income from our exports.

24. We formally call the attention of the leaders of the industrialized countries to the seriousness of the region's economic situation, its high social cost and the need to participate urgently in measures to confront the crisis, directly through their governments and through the international organizations.

25. The energy sector is of special importance to the social and economic development of our peoples. The region will step up its efforts to achieve and maintain a high level of self-sufficiency in energy, with technological autonomy. It is consequently important to support

the Latin American Energy Organization (OLADE) in attaining its objectives and in implementing the Latin American Energy Co-operation Programme (PLACE).

26. We bring to the attention of the international community our conviction that should Latin America and the Caribbean again resume their economic development, they would once again become a dynamic element in the necessary and sound recovery of the world economy.

27. Finally, in the spirit of the Buenos Aires Platform,* we express our will to strengthen the unity of the developing countries and to promote a joint strategy for the revitalization and development of the world economy.

We believe that this solemn occasion is proof of the permanent resolve of our countries, despite all obstacles, to maintain the regional unity which is an essential requisite for our development.

We have agreed upon a response that includes challenges and promises. Its implementation is obviously dependent upon the efficiency of our negotiating capacity and on the diligence with which the regional and subregional institutions and organizations carry out the tasks we have entrusted them here.

Consequently, we respectfully request His Excellency, the President of Ecuador, Dr. Osvaldo Hurtado Larrea, that the Declaration and Plan of Action adopted here be formally transmitted to the Heads of State or Government of developing countries which are members of the Group of 77 and the Heads of State or Government of the industrialized countries as well as to the appropriate regional and international institutions and organizations.

We request the appropriate regional and subregional organizations to prepare reports on the progress achieved in implementing the actions and tasks which have been entrusted to them and to forward them to the Regular Meeting of the Latin American Council of SELA in order that a study and evaluation of the progress of the Plan of Action be made.

We wish to thank the people and Government of Ecuador for their magnificent hospitality and the city of Quito for having been the historical setting for this Conference.

*Final document of the Fifth Ministerial Meeting of the Group of 77 (Buenos Aires, 28 March-9 April 1983). The purpose of this meeting was to define a negotiating strategy for UNCTAD VI (Belgrado, June 1983).

PLAN OF ACTION

As far as intra-regional co-operation is concerned, the following Plan of Action provides a set of undertakings and measures which are balanced both in their formulation and in their practical application. This Plan, which takes into account the need for differential treatment according to the degree of economic development of individual countries, is aimed at strengthening co-operation and development in the region. The prompt implementation of any one of these measures will contribute effectively towards the implementation of the remaining ones.

I. FINANCING

1. *External Debt*

a) *Basic criteria*

Responsibility for the external debt problem must be shared by the debtor and the developed countries, the international private banking system and the multilateral finance organizations.

The Latin American and Caribbean countries have already assumed their responsibility by making extraordinary adjustments in their economies and enormous efforts to meet their international obligations, despite the high social, political and economic cost involved.

Because of these circumstances and the need to maintain adequate levels of development in Latin America and the Caribbean and to avoid greater crises in the international economic and financial system, it is to the mutual benefit of those concerned that an urgent solution be found to the problem of the region's external debt.

Furthermore, the close relationship between trade and financing also requires any solution of the payments problem to take both into consideration and be of a permanent nature.

The adjustment process should operate in the future through an increase in the volume and price of exports and a decrease in real interest rates, and not by additional restrictions of imports vital to the internal economic recovery.

The magnitude of the regional economic recession and the persistence of adverse external factors make it imperative that any external debt arrangements and negotiations, which our countries enter into individually in the future, should harmonize the requirements of debt servicing with the development needs and objectives of each country, by minimizing the social cost of the adjustment processes already under way.

Based on these considerations, we adopt the following basic criteria:

i) In renegotiating the external debt, export earnings income should not be committed beyond reasonable percentages consistent with the maintenance of adequate levels of internal productive activity, taking into account the characteristics of the economies of each country;

ii) Formulas should be devised to reduce debt service payments, by drastically reducing interests, commissions and spreads which substantially increase refinancing costs. Moreover, mechanisms should be explored to stabilize over time the amount of resources annually allocated to debt servicing in accordance with the payments profile of each country;

iii) Terms and maturities must be substantially longer than at the present time, and grace periods must be broadened; and the possibility of converting a part of the accumulated debt into long-term obligations should be urgently explored, which will require the co-operation of the governments of developed countries and of international finance agencies;

iv) The maintenance of a net, adequate and increasing flow of new public and private financial resources for all the countries of the region as an essential component of external debt renegotiations and as a guarantee of social and economic development, should be assured by granting additional commercial and financial credits;

v) Likewise, in order to enhance our countries' ability to pay, debt renegotiation should be accompanied by commercial measures essential to improving the terms of access for exports from Latin America and the Caribbean in world markets and eliminating increasing protectionism by the developed countries.

b) *Exchange of information and technical assistance*

We consider it necessary for Ministries of Finance or Economy and for Central Banks to carry out efficient, direct and confidential exchanges of information on the terms for refinancing and rescheduling the external debt of the countries of the region.

We also recommend that whenever so requested by any country or countries of the region, the appropriate international organizations, such as SELA, CEMLA, CEPAL, UNCTAD and UNDP, as well as the governments of the region, should provide technical assistance in renegotiating the external debt by drawing upon

available capacity and experience with the timeliness and urgency required.

Finally, we recommend that Ministers of Finance or Economy and Central Bank Presidents of Latin America and the Caribbean should meet when circumstances so warrant, or include specific consideration of external debt problems and the exchange of information regarding the external debt on the agendas of meetings they hold.

2. *Support Mechanisms for the Expansion of Intra-regional Trade*

a) *Strengthening of clearing mechanisms*

We agree that it is essential to improve and expand the coverage of the present systems for reciprocal payments and credits in the region by drawing on the experience of the regional clearing and the transitory financial support systems. It will therefore be advisable to expand forms of intervention in order to improve financial co-operation among the countries of the region.

It is hoped that these systems will be instrumental in achieving the following basic objectives:

i) To decrease further the use of convertible currencies in transactions of goods and services in the region;

ii) To design and implement financial mechanism aimed at increasing trade in the area; and

iii) To develop viable mechanisms which may serve to attract extraregional resources.

Importance should be given to the relationship between multilateral payment clearing mechanisms and commercial negotiations, as well as to the establishment of the means for attracting resources from outside the region to complement the promotion of trade among our countries.

We agree to strengthen and lend the greatest possible support to the financial clearing and monetary co-operation mechanisms serving the countries of the region.

Besides studying the possibilities of incorporating other Central Banks which are not members of the existing subregional schemes, we recommend consideration of the following general objectives:

i) Multilateral clearing of payments covering transactions carried out through the system;

ii) Financing of certain cases of international lack of liquidity by granting

qualified credits, issuing international monetary instruments and attracting financial resources;

iii) Development of regional economic integration to facilitate commercial and financial exchanges; and

iv) Adjustment procedures for the imbalances created by regional trade by means of expanded trade commitments and specific finance mechanisms.

These objectives will be considered within the framework of maintaining and strengthening transitory subregional support mechanisms for the deficits produced by interregional trade, which will assist in providing liquidity to goods and services transactions among the countries of the area.

We recommend that ALADI, in co-ordination with other regional financial organizations, submit a study as soon as possible on the possibility of establishing a reserve fund to finance balance of trade imbalances.

We recommend to the member countries of the Agreement on Reciprocal Payments and Credits of ALADI and the Santo Domingo Agreement that they complete the study of formulas that will make it possible for other Central Banks of the region to subscribe to them, and we recommend to the latter that they study the possibility of completing the respective process of arranging bilateral credit lines.

b) Financial Support Mechanisms for Intra-regional Trade

In line with the objective of expanding our trade at the regional level, we consider it necessary to strengthen and develop export financing mechanisms and for this purpose request SELA, CEPAL, ALADI and CEMLA, together with BLADEX and the subregional financial organizations, to carry out a study to identify and broaden the scope of existing financing mechanisms and identify new intra-regional instruments to promote exports within the region and to third countries.

This study will be considered at a technical meeting of government officials responsible for foreign trade financing in accordance with Decision No. 174 of the Latin American Council of SELA.

3. International Economic Relations

The serious difficulties currently faced by the Latin American and Caribbean countries are closely linked to the structural deficiencies of the international economic relations system in the monetary, finance, and trade areas. In that context, we reaffirm our

support for the proposals of the Group of 24 regarding the urgent need to reform the international monetary and financial system to achieve a more balanced world-wide institutional framework which would facilitate orderly development of the world economy. We likewise reaffirm our support for the proposals agreed upon at regional and interregional levels, successively proposed by the Latin American and Caribbean countries in various international fora and also dealt with in the Buenos Aires Platform resolutions and at the Cartagena Ministerial Meeting for Latin American Co-ordination.

Under the present circumstances it is especially important to adopt the following measures in the monetary and financial fields of trade and development financing:

a) Monetary and Financial System

i) To increase International Monetary Fund resources in line with the financial assistance requirements of developing countries; and to urge the IMF to participate temporarily in international finance markets to attract additional resources;

ii) To issue new Special Drawing Rights in amounts that will satisfy international liquidity requirements and solve the payments difficulties of developing countries as well as making SDR the main reserve assets;

iii) To revise IMF conditionality criteria—which, under present circumstances can endanger our stability and development—so as to give greater importance to the expansion of production and employment and to bear fully in mind the countries' development priorities and their political and social limitations so that they may realistically cope with the internal adjustment needs imposed by the present worldwide economic recession;

iv) To make access to IMF resources greater and more flexible, especially by increasing drawing capacity as a percentage of quotas;

v) We shall also propose to the IMF that it effectively perform the function of monitoring the economic policies of the industrialized countries to better co-ordinate those policies so as to ensure that the adjustment process is equitable.

b) Trade

The expansion of Latin American and Caribbean exports towards the markets of industrialized countries is essential, not only to strengthen our countries' payment capacity but also to ensure the sustained, stable development of the region.

We therefore urge the developed countries to eliminate their increasing protectionist measures, which hinder and restrict world trade.

Another measure which must be eliminated is the financial and trade ranking applied to the region in various international markets and economic organizations and in certain bilateral relations because it is unjust and incompatible with our countries' development requirements and limits their payment capacity.

c) Development Financing

It is necessary to substantially increase the resources of the Inter-American Development Bank and of the World Bank group, recommending that the latter increase the proportion of the resources it channels into Latin America and the Caribbean. The policies of these organizations regarding the granting of credit must be flexible enough to adapt to national policies and to the development priorities of member countries. Within this context we recommend:

i) The measures taken by the Inter-American Development Bank and the World Bank in establishing Special Action Programs have benefited the region. However, both institutions should reinforce these actions with a view to accelerating disbursements, thereby reducing local counterpart fund requirements;

ii) That the financial institutions which channel their resources into the region incorporate into their operational policies the principle of significantly increasing Programme Loans. Furthermore, these institutions should substantially increase the financial resources that support multinational development projects;

iii) That the IDB play a greater role in strengthening regional co-operation and integration mechanisms. Consequently, provision should be made for an increase in financing for development projects or programmes related to the expansion of exports and those programmes that strengthen regional financial and monetary mechanisms;

iv) In view of the existing financial gap in Latin America and the Caribbean, the resources agreed upon under the VI Resource Replenishment of the Inter-American Development Bank are considered to be insufficient and should therefore be promptly increased.

It is also important to increase the resources of the financial and technical co-operation mechanisms of the United Nations system and to ensure greater flows of concessionary resources to Latin American and Caribbean countries, from these mechanisms.

We likewise recommend with regard to subregional financial organizations and national development banking:

i) To promote an increase in the flow of additional external resources into investment projects by means of co-financing arrangements agreed upon by multilateral institutions and Latin American subregional development financing mechanisms with international private banks;

ii) To make possible, by means of suitable legal instruments, the shared contribution of Latin American resources to projects of shared interests in the form of both capital and technology through the mechanism of co-investment with the participation of national or subregional financial institutions and of regional and/or extraregional entrepreneurs or investors.

We therefore consider it of special interest to lend the necessary support to the actions being taken to promote the establishment of intra-regional co-investment mechanisms as a means or contributing to Latin American regional integration.

II. TRADE

1. Commitment on non-tariff restrictions in intra-Latin American Trade

We take on a commitment not to introduce from this date on any new non-tariff restrictions on imports from Latin America and the Caribbean and to eliminate or reduce progressively existing restrictions through negotiations whose deadlines, criteria and procedures we are committed to adopt within this year. The fulfillment of this commitment will not in any way signify any modification of the obligations we have acquired under multilateral or bilateral trade agreements. We will consult each other whenever emergency situations arise that could impede fulfillment of this commitment.

For the purpose of this agreement, we will not consider as additional restrictions on trade any changes in the non-tariff protection structure that any of our countries may be forced to adopt with the purpose of using rationally its foreign currency reserves or adjusting the protection required by its industries in the face of the changing international economic situation, taking into account that such modifications will be of a circumstantial and temporary nature, provided that such measures are consistent with its obligations within the framework of regional integration agreements, whenever appropriate.

At its tenth Regular Meeting, the Latin American Council of SELA will decide

upon the negotiations referred to in this section and on the procedures to evaluate their results, with the participation of the Secretariats of the Latin American and Caribbean integration schemes.

2. Increase in the exchange of goods and services among the Latin American and Caribbean countries.

a) Latin American regional tariff preference

We agree on the need for countries of the region to benefit their reciprocal trade, bearing in mind the diversity of the levels of development in the countries of the region, by establishing a tariff preference of such a magnitude that it will divert and create trade currents towards Latin America and the Caribbean, taking into account the diversity of development levels of the countries of the region.

Consequently, we urge the member countries of ALADI to bring to fruition negotiations for establishing regional tariff preferences during 1984, as stipulated in Article 5 of the Treaty of Montevideo of 1980, in accordance with Resolution 5 of the Council of Ministers, through an Agreement of Regional Scope, open for membership to those Latin American and Caribbean countries which are not members of ALADI.

For this purpose, ALADI will hold consultations with the other Latin American and Caribbean countries and with sub-regional integration organizations so as to report on any progress made in those negotiations.

The Latin American and Caribbean countries which are not members of ALADI could negotiate their participation in this Agreement to implement the Latin American Tariff Preference mentioned in Article 24 of the Treaty of Montevideo of 1980.

Until this is accomplished, we agree that each country establish, without necessarily entailing a negotiation, a list of products for which it would be willing to apply a significant preference applicable to all the countries of the region in accordance with the production possibilities of each country and their different levels of development.

The preferences granted shall be reviewed in the light of the progress achieved in the negotiations involving the enforcement of the Latin American Tariff Preference.

The preference mentioned in the preceding paragraph shall not imply consolidation of duties nor prevent the participating countries from reforming their tariff structures to reflect general economic policy decisions.

The Latin American and Caribbean countries should take the measures necessary to grant these preferences in conformity with the multilateral, bilateral, or subregional agreements to which they have subscribed.

b) Trade Negotiations

We agree to intensify bilateral or multilateral trade negotiations among our countries for the purpose of achieving an accelerated increase of intra-regional trade. We therefore urge the countries of the region to apply Article 25 of the Treaty of Montevideo of 1980.

c) Government Procurement

We agree to promote, through bilateral or multilateral agreements and within the framework of the integration systems, operational mechanisms that will make it possible to take advantage of government procurement capacity by seeking to import from regional suppliers of our imports. To that end, and as soon as possible, the integration systems should carry out the consultations necessary to implement the operational mechanisms with the participation of those countries not included in any integration process.

We agree in the need to apply, when the purchase of goods and services is done through public tender, a regional preference in favour of Latin American and Caribbean suppliers and corporations. For this purpose, all necessary studies shall be performed to apply such preference, in the measure that current national legislations and international agreements of each country allow it.

Such studies, which will be performed by the Permanent Secretary of SELA with the collaboration of the relevant regional and interregional organisms, shall be submitted for a decision by the Latin American Council of SELA and shall encompass, among others, the following criteria:

i) The possibility of establishing, in the bidding terms and conditions, that when the bids are the same, the purchasing entity shall grant the Regional Preference to offers from Latin American and Caribbean enterprises;

ii) The possibility of establishing, in the bidding terms and conditions, that the purchasing entity retain the right to ask any Latin American firm whose offer takes second place, to match the terms of the first, in which case it will be awarded the tender;

iii) Bidding terms and conditions may contain other differential clauses in favour of Latin American firms.

d) Making use of the regional demand and supply of goods

i) We agree to take advantage of the regional supply and demand for goods for the following purposes:

—To facilitate the purchases and sales of the region within the region itself as well as outside the region;

—Intensifying Latin American industrialization;

—Encouraging the greatest possible participation by regional firms in the supply of the equipment needed by the countries of Latin American and the Caribbean.

In that context, and considering that the demand for capital goods in the electricity generation sector is appropriate for initiating joint actions, according to CEPAL studies, we instruct the Secretariat of that organization and of OLADE to adopt during 1984 all necessary measures in order to define and gradually implement the appropriate mechanisms for making use of regional demand for goods in that sector.

ii) Likewise, we shall encourage the creation of new Latin American multinational marketing enterprises and the strengthening of existing ones in order to make maximum use of the bargaining power deriving from joint demand and supply of goods;

iii) To avoid duplication of efforts and to achieve the most adequate use of resources in the field of information, we require from all regional and subregional organizations that deal in trade information to co-ordinate effectively their efforts and programmes for the purpose of providing the region with an efficient system of trade information within the framework of SELA.

e) Protectionist and discriminatory measures applied to Latin American exports

We entrust the Latin American Council of SELA with granting further consideration at its Tenth Regular Meeting to the actions that Latin America and the Caribbean should adopt to counteract the protectionist and discriminatory measures applied by industrialized countries and which affect Latin American exports. These actions shall be based on the studies prepared in this regard by UNCTAD and CEPAL.

In that context, and within the spirit of Decisions 112 and 113 of the Latin American Council of SELA, it shall consider all economic coercive measures applied against any country in Latin America or the Caribbean.

f) Compensated trade and economic complementarity agreements

We request the General Secretariat of ALADI to carry out, in collaboration with CEPAL and UNCTAD and in consultation with the technical bodies of the subregional integration systems, a study of the opportunities that exist for compensated trade transactions with the participation of all Latin American and Caribbean countries, and to report to the respective governments through the Permanent Secretariat of SELA.

Similarly, the greatest possible amount of economic complementary should be promoted among all the countries of the region, taking into special account the possibilities contained in Articles 11 and 25 of the Treaty of Montevideo of 1980.

3. Actions to promote intra-regional trade

We request the appropriate organizations of the regional and subregional integration systems, in co-ordination with SELA, to examine the instrumentation of the actions mentioned in this chapter, to adopt the corresponding operational decisions and to promote other initiatives that will broaden intra-regional trade.

We request the Permanent Secretariat of SELA, within its institutional framework and bearing in mind Decisions 125 and 174 of the Latin American Council, to hold periodic consultations with the officials responsible for foreign trade in the Latin American and Caribbean countries to promote other initiatives to expand intra-regional trade, such as collaboration agreements between the production and trade sectors in the region.

Finally, the Latin American Council of SELA, at its tenth Regular Meeting, will study the possibility of convening a conference especially devoted to foreign trade.

III. REGIONAL FOOD SECURITY

1. We believe it necessary that all Latin American and Caribbean nations should belong to the Committee for Action on Regional Food Security (CASAR) of SELA to establish and support the Regional Food Security System.

2. In order to avoid duplication of efforts and make the best possible use of resources so as to achieve this most important objective, we appeal to all regional and subregional international organizations in charge of food supplies and production in Latin America to co-ordinate their efforts and programmes in the framework of this Committee and the Regional Food Security System. This appeal is particularly important for the

purpose of providing the region with an effective information system on food and agriculture and a plan for co-operation among national agencies concerned with the marketing of food.

3. As support for the integration and consolidation of the Regional Food Support System, the need is underscored for each of our countries to formulate national food plans to promote the production of basic foodstuffs and to improve their distribution and consumption. In order to facilitate achievement of this objective we consider it very important to exchange national experiences within the framework of CASAR.

4. We also recognize that the effectiveness of a regional system will also depend on the efforts made at the subregional level. We therefore stress the need for such a regional system to support and complement existing subregional projects and programmes.

5. In order to achieve greater regional self-sufficiency in basic foodstuffs we decided to give priority to the exchange of food in all actions considered by the Conference with regard to the promotion of intra-regional trade, including transportation, the elimination of barriers, the establishment of the Regional Tariff Preference and, if required, financing.

6. We hope that all the States of Latin America and the Caribbean which have not yet done so to join the Latin American Multinational Fertilizer Marketing Enterprise (MULTIFERT S.A.) and to make full use of its services. We also hope that those States will join the Latin American Fisheries Development Organization (OLDEPESCA) in order for its constitutional charter to enter into force and enable it to initiate its activities as soon as possible.

IV. ENERGY CO-OPERATION

We agree on the need to intensify energy co-operation in order to achieve regional self-sufficiency in energy and technological autonomy. For this purpose the region's capacity to increase and diversify the production of energy and rationalize its consumption should be strengthened in order to support its economic development, reduce its dependence on a limited number of energy sources, overcome its vulnerability with regard to extraregional markets and increase the coefficient of technology and capital goods originating in Latin America and the Caribbean in the process of production, transformation and distribution.

In order to achieve these objectives the following actions will be undertaken:

i) Strengthen the energy planning system as an instrument to consolidate the economic development of the region. Although the essential effort is the responsibility of each individual country, co-operation and the exchange of experience is nonetheless of particular significance.

ii) Increase the exchange of information in the field of energy, for which purpose it will be necessary for OLADE to accelerate establishment of the project for the Latin American Energy Information System (SIECA).

iii) Expand and improve the supply of energy in the region with the aim of achieving optimum levels of regional supply, and promoting the negotiation of agreements regarding reciprocal payments and credits, expanding them to include inter-regional transactions in energy and petrochemical products.

iv) Promote new energy co-operation agreements and identify multinational energy projects that will promote integration among the countries of the region. In the field of hydrocarbons an attempt will be made to increase storage capacity and to improve refineries in the countries of the region. For this purpose funds deriving from such agreements will be utilized, *inter alia*, in addition to engineering and construction firms and industrial inputs of the region.

These new agreements must be stable and permanent in order to facilitate planning of both energy development and intra-regional trade.

v) Promote the establishment of multinational Latin American petroleum fleets that will incorporate the region's shipping resources.

vi) Promote agreements among the State-owned corporations of the region that deal with energy to strengthen their technological capacity and supply of capital goods so as to take advantages of the progress achieved in the region.

vii) Promote the channeling of international financial resources particularly towards the development and use of new and renewable sources of energy —to expand and diversify the energy base of the countries of the region.

viii) Strengthen OLADE in the accomplishment of its objectives and particularly for the execution of the Inter-American Energy Co-operation Programme (PLACE) in order to carry out the new tasks associated with the actions decided upon by this Conference.

ix) Commission the Permanent Secretariat of OLADE to present a report for the consideration of the Committee of Ministers at its next meeting in March in order to enable that Committee to follow up on the actions taken in the field of energy.

V. SERVICES

Aware of the growing importance of the service sector for the economic development of the countries of the region and recognizing the need for adopting joint and co-ordinated positions in international organizations truly competent in deal with this subject, we believe it necessary to:

i) Reaffirm the need to adopt a joint regional position with regard to the topic of the international trade of services, for which purpose a Latin American

Coordination Meeting has been called under Decision 153 of the Latin American Council of SELA;

ii) Co-ordinate the position of the Latin American and Caribbean countries with respect to initiatives or actions which can bring about true development of indigenous technologies in the region in accordance with the national interest of our countries, particularly with regard to the most advanced technologies;

iii) Undertake joint efforts to define and implement appropriate mechanisms for the dissemination and transfer of new technologies to direct users in the different fields of production;

iv) Carry out consultations among our countries and with regional and subregional organizations in order to identify specific areas for the promotion of regional and subregional co-operation plans with respect to services, especially in the transportation, insurance and reinsurance sectors;

v) Grant, in the implementation of national or multinational projects, preferential treatment to Latin America and Caribbean firms that provide national services, particularly with regard to consulting and engineering firms;

vi) Request the Inter-American Development Bank to take the necessary steps to establish systems to reduce the cost of insurance and reinsurance in the region, taking into account systems included in carrying out projects financed by that Bank.

In any consultations and actions undertaken to comply with the provisions of this chapter, account will be taken of the diversity of national legislation in some of the areas related to services.

